MEASURING COMMITMENT

An Analysis of National Budget and Planning Policies and the Impact on Land and Forest Governance in Indonesia

December 2013

SEKNAS FITRA

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Glossary

APBN	:	State Revenue and Expenditure Budget
APBN-P	:	Amended State Revenue and Expenditure Budget
APL	:	Other Use Area
Bansos	:	Social Assistance Expenditure
DBH	:	Profit-Sharing Fund
DAK	:	Special Allocation Fund
DAU	:	General Allocation Fund
Deficit	:	Negative difference of revenue after expenditure deducted
DR	:	Reforestation Funds
GRNT	:	Stumpage Value Compensation
HKm	:	Community Forest
HTR	:	Community Forest Plantation
HD	:	Village Forest
HP	:	Production Forest
HK	:	Conservation Forest
HL	:	Protected Forest
HPT	:	Limited Production Forest
HPDD	:	Convertible Production Forest
Inpres	:	Presidential Instruction
IIUPH	:	Forest Utilization License Fee
LKPP	:	Central Government Financial Report
LHP BPK	:	Audit Reports of the Supreme Audit Agency
LAKIP	:	Government Agency Performance Accountability Reports
MP3EI	:	Master Plan for the Acceleration of the Expansion of Indonesia's Economic Development
PBB	:	Land and Building Tax
PPh	:	Income Tax
PPn	:	Value-Added Tax
PDB	:	Gross Domestic Product
PNBP	:	Non-Tax Revenue
PSDH	:	Forest Resource Provision
PIPIB	:	Indicative Map of New License Suspension
RPJPN	:	National Long-Term Development Plan
RPJMN	:	National Medium-Term (Five-Year) Development Plan
RKP	:	Government Work Plan
Renstra	:	Strategic Plan
Renja KL	:	Ministry/Agency's Work Plan
RAN-GRK	:	National Action Plan for Greenhouse Gases
RAD-GRK	:	Regional Action Plan for Greenhouse Gases
TKHL	:	Land and Forest Governance
UKP4	:	Presidential Task Force Monitoring and Control of Development

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Preface

Salute to Transparency,

Budgeting is a strategic instrument for assessing the quality of commitment to a policy, both at the central and local levels of government. Budget policies also cover all sectors, affairs and functions.

Land and forest based industrial activities have contributed an average of 27 percent of state revenue over the past four years (2009-2012) through a Non-Tax Revenue (PNBP) Scheme. This suggests the existence of land and forest exploitation activities of a high enough intensity to run the risk of potential ecological damage, economic loss and social inequality.

Fair redistribution of state spending policies for those sectors has become the starting point for Seknas FITRA to conduct a study and analysis of the budget, focusing on the land and forest sector. The forestry, mining and plantation sectors have been made the main focus of this study because the three sectors have enormous relevance to the issue of land and forest governance.

In addition, the central government's policy commitments outlined in the government's Development Plan document are reviewed in depth, in relation to performance indicators, which are then compared to realization data as relayed by statistics.

The SETAPAK program, funded by the United Kingdom Climate Change Unit (UKCCU), aims to improve land and forest governance in Indonesia to support the reduction of Indonesia's greenhouse gas emissions. The SETAPAK program supports the efforts of NGOs in Indonesia that are able to play a role in land and forest governance, including lobbying for government policies to become more effective in achieving sustainable development. This study is part of that effort, as a monitoring instrument developed by civil society to assess and evaluate the process of land and forest governance from a budget perspective.

In drafting this report, we want to express our gratitude and highest appreciation to UKCCU for its support of the SETAPAK program in general and this study in particular. We also highly appreciate the hard work of national and local researchers in obtaining and analyzing the data. We hope that this study will be useful in improving land and forest governance in Indonesia.

Jakarta, December 2013

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The analysis and report-writing process was undertaken jointly by Hadi Prayitno, Dadan Ramdan and Ahmad Taufik (Seknas FITRA), and R. Alam Surya Putra (The Asia Foundation). The report was edited by R. Alam Surya Putra.

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Executive Summary

Indonesia is facing serious problems related to unsustainable land and forest governance, resulting in large scale deforestation and forest degradation. Budgets and budget policies are important elements of land and forest governance, critical to ensuring the implementation of development plans and addressing deforestation and degradation problems. Good budget policy requires performance targets supported by budget availability and strict controls to measure implementation, specifically related to (i) rehabilitation and preventing deforestation; (ii) controlling land exploitation; (iii) optimizing plantation productivity; (iv) preventing the clearing of more land for plantations.

The Indonesian Forum for Budget Transparency (Seknas FITRA) conducted a study analyzing national budget and planning policies on land and forest governance in Indonesia. The study aimed to assess central government performance on budgeting, including commitment to budget policies and the resulting expenditure related to forest and land governance. Specifically, the study looked at two issues: the priority policies or plans by the central government related to land and forest governance as well as progress of achievements; and the orientation of national budget policy toward reducing deforestation and degradation.

The study revealed that performance indicators set by the central government in planning documents, aside from not being proportionate to the problems at hand, are not mutually integrated or linked to other planning policies. Budget policies and schemes for revenue, expenditure and finance threaten to increase the rate of deforestation and degradation. High rates of state revenue loss occur in the natural revenue sector, due in part to low state revenue projections and weak public financial management. State expenditure has a huge impact on the quality of performance and achievement in accelerating the rehabilitation of land and forests.

Programs and activities to reduce deforestation and degradation require adequate state funds. Yet spending on the environment is only 1% of total state expenditure; much lower than spending on defense, public order and security. Of this small total, spending on subsidies and civil servants absorbs the biggest allocation of state expenditure. Specific Purpose Grants (DAK) for forestry, agriculture and the environment are residual and unsustainable to fund the expenditure needs of environmental recovery and reducing deforestation and degradation. Furthermore, the absence of benchmarks to define the cost of environmental recovery per hectare or the unit cost of preventing deforestation and degradation makes further analysis difficult. Budget deficit policy that intentionally leads to new debt poses a threat of increased deforestation and degradation. The level of budget deficit reached 8 percent and increased over recent years. The strategy of increasing exploration of non-oil and gas sources of non-tax state revenue (PNBP) to handle debt and budget deficit clearly poses an increased threat of deforestation and degradation.

Recommendations from this study relevant for central government include: to improve accountability of government performance to ensure that development goals (for reduced emissions and rate of deforestation and degradation) are consistent with the planning of ministries and other state institutions; strengthen the moratorium policy to respond to exisiting social-political conditions; and boost the role of local governments in overcoming conditions of deforestation and degradation that are not yet improving.

Recommendations for civil society include: to conduct studies related to budget policy for better land and forest governance both at the national and local levels as a way to increase public debate on the issue; bolster their advocacy by working together with civil society groups that work on land and forest governance; and to get involved in budget planning and monitoring to ensure that the rights and aspirations of communities can be adequately considered by the government in formulating the budget, including aspirations to protect natural resources and reduce rates of deforestation.

PART I

INTRODUCTION: BUDGET REVIEW AS AN INSTRUMENT FOR THE EVALUATION OF NATIONAL POLICIES ON LAND AND FOREST GOVERNANCE IN INDONESIA

1.1 INTRODUCTION

Various studies about land and forest governance related budget policies in Indonesia confirm that the system needs to be evaluated. Improvements to financial management in the land and forest sector are important in order to prevent: first, a loss of state revenue due to technical errors and corruptive political practices; second, the increasing rate of deforestation and degradation, because existing incentives cannot reduce the problem; and third, worsening governance due to poor monitoring and law enforcement over grievous financial management violations, especially with respect to the land and forest sector. These studies suggest the importance of further research to generate policy schemes that give more attention to equilibrium in Indonesia's economic development.

Research into budgets for land and forest governance is still often associated with issues of corruption arising from economic rent and climate change funding schemes. Corruption in land and forest governance has lately become a prominent issue in Indonesia. The arrest of a district head over allegations of corruption in land transfer suggests that there may be more cases of corruption related to land and forest governance yet to be uncovered. Forestry Ministry data from August 2011 reveals that state losses dues to forestland concession permits in seven provinces may have reached almost Rp 273 trillion. The estimated state losses were incurred due to the opening of 727 plantation units and 1,722 mining units that have since been judged to be problematic. Meanwhile, Indonesia Corruption Watch (ICW) research indicates that potential state losses reached Rp 169.797 trillion in the forestland non-tax sector from 2004 to 2007. This value was obtained by calculating the difference between the potential state revenue from Reforestation Funds (DR) and Forest Resource Provision (PSDH) and the reduced amount of state revenue received. Meanwhile, budget studies related to climate change funding schemes are emerging together with the Indonesian government's commitment to reduce carbon emissions and the implementation of REDD+ in Indonesia.

This study was conducted as an effort to expand the list of studies connecting land and forest governance with budget policies. However, the main focus of this study is not corruption, nor for that matter climate change funding. This study is oriented toward examining the extent to which existing budget policies make allocations for land and forest governance as defined in the existing planning policies. Therefore, reviews of spending on land and forest governance and of revenue from the land and forest sector are frequently referred to in this study.

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1 World Bank (2009), Investing in a More Sustainable Indonesia, Jakarta; Barr, C., Darmawan, A., Purnomo, H., Komarudin, H., 2009, Financial Governance and Reforestation Funding in the Suharto and post-Suharto period 1989 – 2009: CIFOR, Bogor., S. Mumbunan and R. Wahyudi, 2012, Income Transparency of Industrial Extractives in the Forestry Sector in Indonesia, Article 33, Jakarta

2 Ibid.

3 ICW (2012), Halfheartedly Eradicating Forestry Crime, page 12.

4 ICW (2012), ibid.

The perspective developed in this study is to look at the extent to which planning and budgeting policies at the national level make a useful contribution to land and forest governance. With the aim of analyzing planning and budgeting policies on land and forest governance in Indonesia at the national level, the study looks at two things in particular: first, it examines the priority policies or plans of the central government related to land and forest governance as well as the progress made; second, it looks at the orientation of national budget policy toward reducing deforestation and land and forest degradation. In addition to examining state revenue, both potential and realized, from land and forest governance, this study also looks at the orientation of state spending policies in accelerating better land and forest governance. In this case, in terms of planning and spending allocation policies, achievement of performance targets supported by budget availability and strict controls able to ensure smooth implementation and significant contributions to efforts to: (i) rehabilitate forest and prevent deforestation; (ii) control land exploitation; (iii) optimize crop productivity; and (v) prevent more land from being cleared for plantations.

The study is part of a monitoring instrument developed by civil society groups to assess and evaluate the process of land and forest governance in Indonesia under the framework of budget policies. The study is developed by a civil society network that is experienced in reviewing budget management policies in various sectors of government. Seknas FITRA coordinated this study with the support of ten networks of regional civil groups. In the past three years, Seknas FITRA has intensively studied the APBN, although the sectors or fields more extensively examined previously were education, health and infrastructure.

This study hopes to become the basis of public debate to further improve government policies. Aside from hopefully being a useful reference in support of previous studies, this study aims to provide input to the Indonesian government and other stakeholders. For the central government, this study can be part of the government's evaluation and monitoring of performance achievements, policy commitments and implementation of land and forest governance. In addition, this study can provide input on the development of better fiscal policies, particularly in relation to land and forest governance. For the House of Representatives (DPR), this study of course can be used as material for the discussion on fiscal policy, especially in the land and forest sectors. Meanwhile, for think tank agencies and academics, this study can be a reference to complement previous studies in addition to inciting further study. Finally, for civil society this study intends to complement data and information to advocate for improved land and forest governance in Indonesia.

Box 1.1 Prior Studies by Seknas FITRA on State Budgets

Below are a number of studies previously conducted by Seknas FITRA regarding state budgets, or APBN:

2009:

- Vitamin Budget/Vitamin Anggaran: This study on Financial Notes and the Revised National Budget (RAPBN) for 2010 produced critical findings and strategic recommendations that can be used by the House of Representatives (DPR) to criticize government budget policy plans, especially those related to issues of efficiency and effectiveness.

2010:

- Budget Image/Pesona Anggaran; This study acted like a mirror for state budget policy that reflected evaluation of APNB implementation in 2010. The study was the results of annual analysis included in the Year-End Notes.
- Peeling Back Regional-State Financial Balance/Kupas Tuntas Perimbangan Keuangan Pusat-Daerah; This was an in-depth study by FITRA on inequality in fiscal decentralization carried out over a period of 10 years. The ratio of expenditure transferred to the regions did not change from 30 percent for 524 regions in Indonesia, which showed that the central government still actually controlled as much as 70 percent of state funds every year.

2011

- The Year of Budget Hijacking by the Elite/Tahun Pembajakan Anggaran oleh Elit; This study by FITRA looked at the implementation of the 2011 state budget (APBN). The state budget was found to have allocated for extravagant state projects, growing expenditure on state employees, a significant rise in travel spending and a decrease in capital expenditure on economic functions, suggesting that the sovereignty of the people had been hijacked by the interests of the elite.

2012

- Alternative Budget Draft 2013; A counterpoint draft state budget (RAPBN) formulated by FITRA together with the Civil Society Coalition for Welfare Budget (APBN Kesejahteraan) based on a study of 2013 Financial Notes and the 2012 realized state budget.
- RAPBN 2013 Image creating: An examination of the wasteful 2013 annual budget that did not consider people's welfare.

1.2 RESEARCH FRAMEWORK

Budgets—both state (APBN) and regional (APBD)—are important instruments for the government to implement its programs. The adequacy of a government's budget in funding its programs is greatly influenced by how the budget is managed. A government's budget is a reflection of a political decision between the executive and the legislative branches regarding what the government is to carry out each year. This political decision has a broad impact not only on quality of life for citizens, but also on how the government allocates existing resources to meet the needs of its programs. Therefore, this political decision illustrates the extent of the government's concern for the people and the environment.

Budget management polices are based on planning policies that have been formulated by a government. Planning policies form the basis for a government to run its programs and allocate its spending. Planning policies at the central level includes the Long-Term Development Plan (RPJP), National Medium-

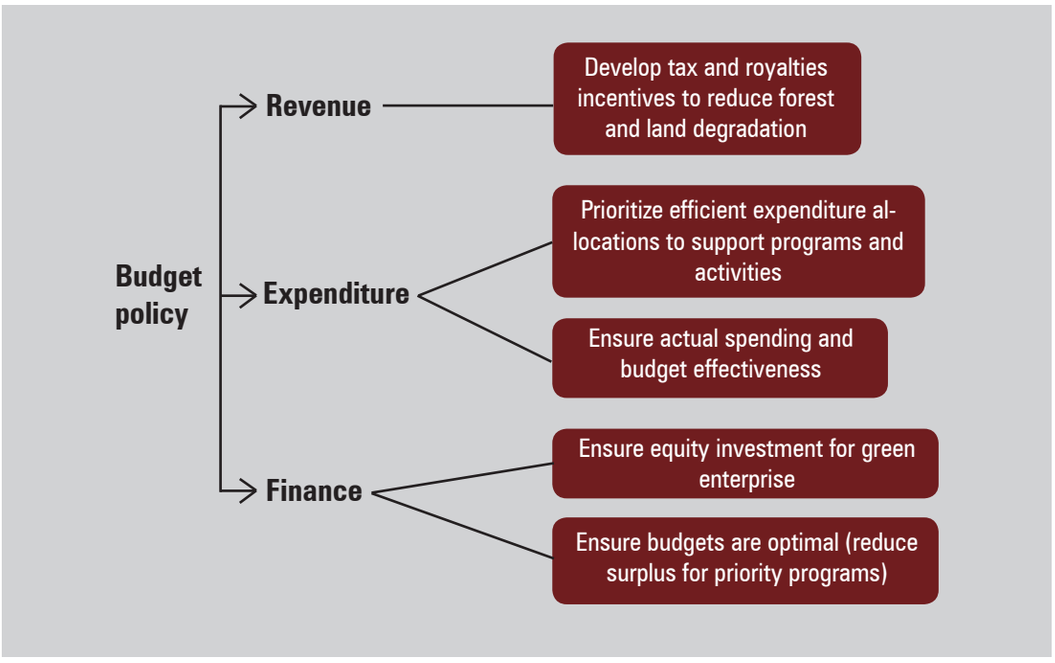
Term Development Plan (RPJMN), Strategic Plans (Renstra K/L) and Work Plans of ministries and agencies (Renja K/L). In addition to this, planning policies are also issued sectorally, aimed at achieving certain development goals. In terms of reducing carbon emissions, the government has issued a policy through the preparation of a national action plan to reduce greenhouse gases, known as RAN-GRK. Planning policies also exist at the local level in the form of certain documents, the scope of which determine the authority of each.

Budget policies are closely related to land and forest governance. In addition to land and forest governance being an instrument of state revenue, it is also an instrument of state spending and financing. As a revenue instrument, land and forest governance is examined via incentive policies through taxes and royalties by the government for activities related to the land and forest sector. However, such policies can either increase or decrease deforestation and degradation. Political decisions to determine the sources of state revenue reflect the extent of a government's commitment to mitigating deforestation and land and forest degradation.

In terms of state spending, it is the extent to which money owned by the government is spent on programs and activities that supports the objectives of development. In particular, to ensure that adequate budget funds are available for programs and activities that support the mitigation of deforestation and degradation. Additionally, to ensure that the allocated money is spent in an optimal manner to achieve the objective of mitigating deforestation and degradation.

Funding is examined with regard to the extent to which the money owned by the government is invested in green-growth development or non-green-growth development. In this case, ensuring that there are available funds to support sustainable development and optimize the existing budget to balance state revenue and spending. Below is a diagram of the effect of budget policies on land and forest governance, employed as the framework of this research.

Diagram 1.1 Research Framework of Budget Policies on Land and Forest Governance



1.3 RESEARCH METHODOLOGY

a. Scope

The study of national budget policies is focused on the analysis of planning and budgeting policies for land and forest governance in Indonesia. This analysis examines the extent to which planning policies are implemented in support of the budget stipulated. National budget analysis of this type includes analyses of state income, expenses and financing within a specific period of time, both on a general and sectoral level.

The sectoral analysis emphasizes the selection of priority programs and activities of three sectors, namely forestry, mining and plantation. The selected programs are those from the ministries of forestry, ESDM, environment and agriculture.

The budget policies under review in this study are from 2009-2012. The documents reviewed involve the 2009-2011 State Budget (APBN) using actual spending, while the 2012 APBN still used pure APBN data (rather than actual spending) since when the data were analyzed, the actual spend cores of 2012 APBN had not yet been issued.

b. Data Collection Technique

The data collected in this study includes data on planning policies and budget policies. The data on planning policies under review concern the 2010-2014 National Medium-Term Development Plan (RPJMN), the Government Work Plan (RKP) for 2011 and 2012, Strategic Plan (Renstra) of each ministry for 2010-2014 period and Work Plan of each ministry for 2011 and 2012. Meanwhile, the data on budget policies under review includes the 2009-2012 State Budget (APBN). The 2009-2011 APBN used the realization core data of the APBN, while its 2012 counterpart still used pure APBN data (rather than its realization). For the purpose of sectoral analysis, this research also uses Presidential Decrees concerning the APBN, in the form of pure data from 2011 and 2012. Other data such as relevant ministerial data, tax income and PNBP as well as audit results of the BPK in 2011 and 2012 are also used in order to produce a more in-depth analysis of the existing data.

The data are processed in stages, including data input, cleaning, compilation, analysis and interpretation. Data entry for the documents obtained is performed by the national researchers of Seknas FITRA. All data gathered were compiled and verified by cross-checking them against other sources, which were subsequently analyzed and interpreted.

Table 1.1 Type of Data collected

Data Requirements	Main Type of Data collected
Planning Policies	
Consistency between planning policies	2010-2014 RPJMN, 2011 and 2012 RKP, Renstra of each ministry for 2010- 2014, and Renja of each ministry
Performance target achievements	2010-2014 RPJMN, 2011 and 2012 RKP, Renstra of each ministry for 2010-2014, Renja of each ministry, 2012 forestry statistical data, and other secondary data.
Budget policies	
General analysis	2009-2011 APBN (M,P,R) , 2012 APBN (M), Audit Results Report of BPK in 2011 and 2012
Revenue analysis	2009-2011 APBN (M,P,R), 2012 APBN (M), BPK Audit Results Report for 2011 and 2012
Financing analysis	2009-2011 APBN (M,P,R), 2012 APBN (M), BPK Audit Results Report for 2011 and 2012
Analysis of spending and sectoral programs	2009-2011 APBN (M,P,R), 2012 APBN (M), BPK Audit Results Report for 2011 and 2012, 2011 and 2012 Presidential Decrees on APBN (M), relevant statistical data

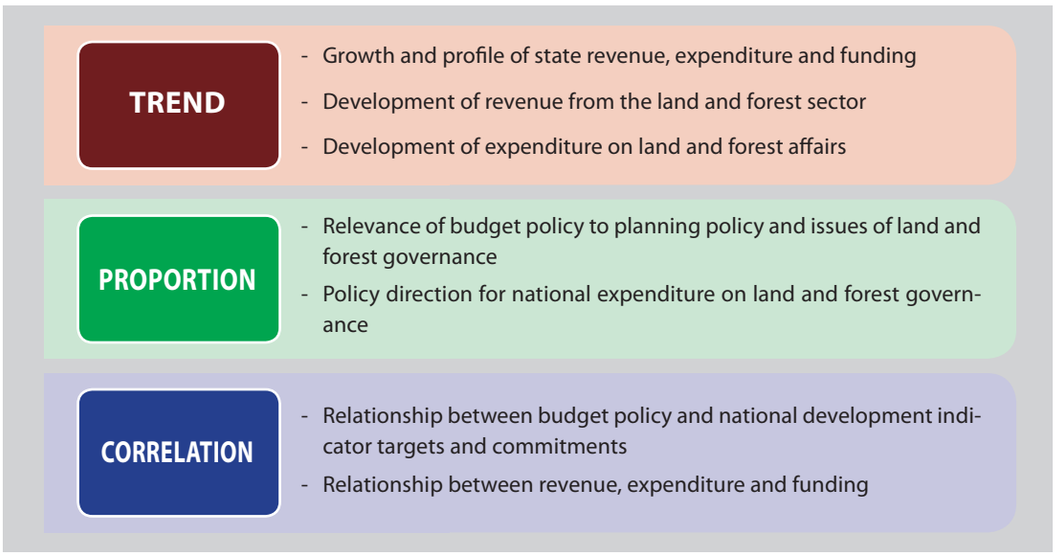
c. Data Analysis

The planning policies were analyzed by examining the consistency as well as the achievement of performance targets. An analysis of consistency is performed by checking the planning documents against each other, beginning at the national level and down to the ministerial or institutional levels. To what extent plans are formulated consistently from one to the next constitutes the significant object for analysis. Secondly, achievement of performance targets are examined by seeing to what extent the formulated commitments have been implemented both through the existing planning or its optimum implementation.

Budget policies are analyzed by examining trends, proportions and correlations. This type of analysis has been employed by Seknas FITRA in its study of previous budgets. Below is the scheme of data analysis employed in the current research.

The analysis of land and forest governance deals with four matters in ministries or institutions. The four matters involve forestry affairs, which fall under the authority of the Forestry Ministry, mining affairs, which fall under the authority of the ESDM Ministry, environmental affairs, which fall under the authority of the Environment Ministry, and plantation affairs, which fall under the authority of the Ministry of Agriculture.

Image 1.1 Scheme for National Budget Analysis



5 M = Original APBN, P = Amended APBN and R = Realized APBN.

6 Regional Budget Analysis: Study of 2008 – 2011 APBD in 20 districts/cities in 4 Provinces, Seknas FITRA, 2012.

PART II

NATIONAL POLICIES ON LAND AND FOREST GOVERNANCE: REVIEW OF PLANNING POLICIES

2.1 AUTHORITY OVER LAND AND FOREST GOVERNANCE IN INDONESIA

Decentralization has led to natural resource management practices that vary according to each sector and its managing department. Forestry affairs, which fall under the authority of the Forestry Ministry, are controlled by centralized policies that have been practiced in the governance of forests. Meanwhile, for mining affairs, which come under the jurisdiction of the Energy and Mineral Resources (ESDM) Ministry, regional governments have been provided with some authority to manage their mining areas, for example, through the issuing of mining permits. Plantation affairs, which are under the authority of the Ministry of Agriculture, have the same practices as those used in mining affairs. The governance practices of each sector is based on different policy backgrounds.

The division of authority between central, provincial and local governments shows a strong centralized tendency for forestry affairs. The central government, in this case the Ministry of Forestry, controls the determination of regions, the granting of approval for business activities, the allocation of governance rights for communities within forestland and the approval of changes in forestland functions. In many respects, the burden of managing this great authority has led to a lengthy queue for approval by the Ministry of Forestry. Many RTRW revisions, both at the district/city level and at the provincial level, are pending approval and are still on the desk of the minister. The same also applies for community applications for land and forest governance within forestland. Meanwhile, the provincial government prefers the role of just giving technical consideration to business activity proposals or governance allocation by the society brought forward by the regional governments, also accompanied by initiating cross-district governance proposals. This means that the authority of the provincial governments and that of districts/cities as autonomous regions is limited to supportive roles, particularly in the area of evaluation and monitoring, and agents of policies formulated in a top-down manner by the central government in order to accelerate the national agenda. The following table depicts several realms of authority distributed based on the respective levels of government.

The practice of managing authorities by affairs as depicted in the table above has resulted in several problems. Issues related to implementation, regulations and policies both in spatial planning and licensing overlap, budgeting and performance target setting as well as sub-optimum monitoring and law enforcement are some of commonly occurring problems and are discussed in various studies by a number of parties. On the other hand, the governance of and authority over these affairs should be consistent with the Indonesian government's commitments in dealing with problems caused by land and forest destruction, increased carbon emissions and matters of the welfare of communities living near forests.

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8 ICEL, Huma, Telapak, WRI (2013), An Overview of the Implementation of Forest Governance: Indepth study in Central Kalimantan and in West Nusa Tenggara.

9 National Council on Climate Change (DNPI) Indonesia, 2010.

Table 2.1 Distribution of Authority Between Levels of Government in the Governance of Forestry, Mining and Plantation Affairs

Level of Govt /Affair	Central	Provincial	District
	Granting substantial and technical approval of spatial zoning in provinces and districts	RTRW drafting and proposed revisions	RTRW drafting and proposed revisions
	Issuance of Decision Letter for designated forestland	Provision of technical considerations for proposed designated forestlands at the district level	Proposal of designated forestland
	Approving forestland boundary demarcations	Establishing a forestland boundary demarcation committee	Committee's demarcation of forestland boundary through the compilation of official reports
	Designating forestland use	Technical consideration for district government's proposal	Proposing a shift in forest status and function, proposal for APL to become a forest use area, and exchange and release land for use
	Granting IUPHHK HA/HT/RE business licenses	Providing recommendations regarding IUPHHK HA/HT/RE business license requests	Giving technical consideration to recommendations regarding IUPHHK HA/HT/RE business license requests
	Designating reserve areas of HKM/HTR/HD	Giving recommendations regarding HKM/HTR/HD reserve proposals	Issuing HKM/HTR/HD permits in the reserve areas designated by the minister
	Drafting of rehabilitation governance plan within conservation areas and its governance authority at cross-district level	Drafting of rehabilitation governance plan within protection and production forest areas and its governance authority at cross-district level	The establishment of rehabilitation governance plans in the forestland, protected forests, and production forests with no imposition of use permits
	Control of forest fires at national level	Control of forest fires at national level	Establishment of a forest fire control plan at the district level
	Monitoring and improvement of forestry PPNS capacity	Appointment and placement of provincial forestry PPNS	Appointment and placement of district forestry PPNS
	IUP issuance	Inter-district IUP issuance	District-level IUP issuance
	Issuing principal approval or use permits for forestland	Granting forestland use permits for the construction of a non-commercial facility with an area of 5 Ha. Recommendation of use permits for IUP issued by Regent in forestland	Providing technical consideration for land use permit
	District-level IUP issuance	District-level IUP issuance	District-level IUP issuance
	Stipulating NPSK (criteria guidelines of standard norms)	Issuing inter-district IUPs	Issuing IUP in districts
	Issuing Decision Letters for the release of forestland (Ministry of Forestry)	Proposing the release of forestland for a plantation	Proposing the release of forestland for a plantation

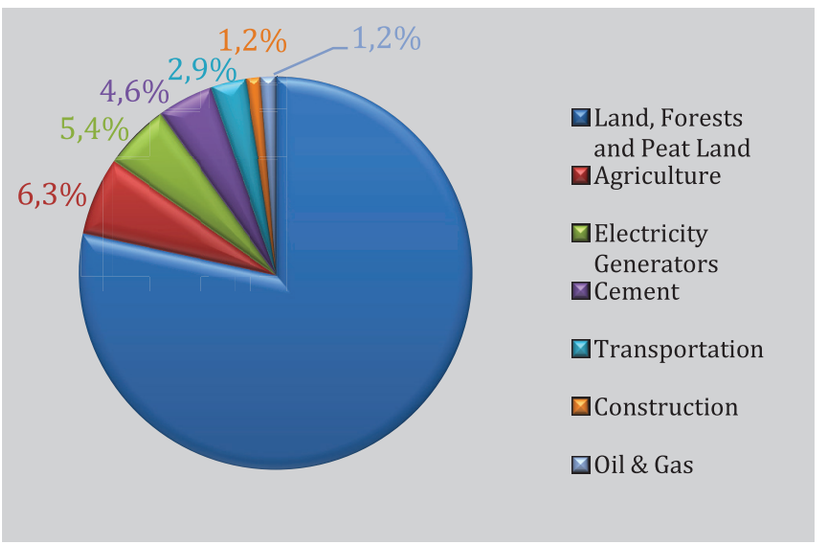
6 When the study was conducted in 2012, North Kalimantan Province was in the process of expansion and Bulungan Regency was still part of East Kalimantan Province.

2.2 THE CONDITIONS OF LAND AND FOREST GOVERNANCE, AND GOVERNMENT COMMITMENT

Forest, land and peatland contribute almost 80 percent of total greenhouse gas emissions in Indonesia. Data released by the National Climate Change Board (DNPI) in 2010 indicated that industrial activities in land and forest sectors contribute to long-term ecological damage. It is therefore useful to map the policy directions related to land and forest governance in order to design a comprehensive scenario for the mitigation of climate change. High emissions from the land and forest sectors derive from the high rate of logging, either legally or illegally, and in the form of wood collecting activities, the conversion of forestland into plantations and mines, as well as agricultural and residential areas. In addition, another cause which has led to a rise in emissions is forest burning, either intentionally or due to natural factors, and the damage it does to peatland, which the government until now has been unable to prevent.

Emissions from the forestland and peatland sectors are commonly caused by poor land and forest governance. Poor land and forest governance has led to a high level of deforestation and land degradation. The conversion of land and forests into plantations or residential areas occurs due to, among other things, a less transparent and participative enactment process. On the other hand, the issuing of permits laden with political interests and other underhanded processes have resulted in many cases of overlapping permits in some regions. Likewise, weak law enforcement in cases of the violations in business and social activities contradict environmental law and still are commonplace in the regions. It can be concluded, therefore, that poor land and forest governance is due to principles of governance such as participation, transparency, accountability and justice not being widely understood. In addition, law enforcement and policy reform have yet to become the main instruments for improving land and forest governance. Below is a map of showing the poor state of land and forest governance in Indonesia.

Graphic 2.1 – Source of Emissions in Indonesia



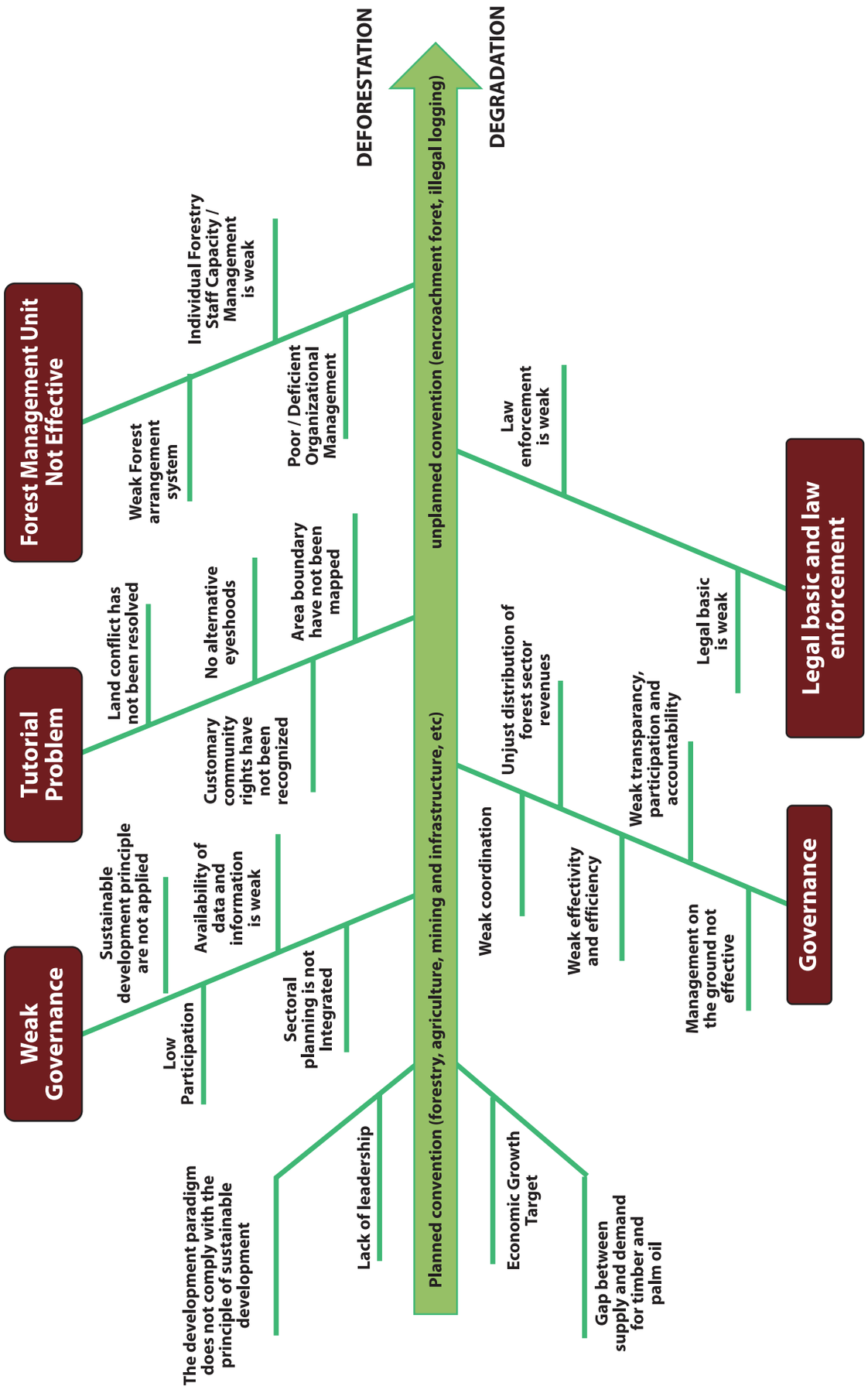


Image 2.1 Map of Poor Land and Forest Governance in Indonesia

Source: Results of Bappenas Consultation, 2010 in the Overivew of Forest Governance: Indepth Study of Central Kalimantan and West Nusa Tenggara, ICEL, Huma, Telapak, WRI, 2013: 2.

The Indonesian government's commitment to decrease emissions by 26 percent with domestic funding or 41 percent with international funding by 2020 needs to be appreciated. This commitment serves as a basis for the government and other stakeholders to get involved in promoting its fulfillment. For the government, and some of the relevant ministries, programs and jurisdictions need to be adapted in accordance with the orientation of the existing commitment. This commitment has demonstrated Indonesia's important role in mitigating carbon emissions on a global level.

Efforts to mitigate carbon emissions are part of an important program for the Indonesian government. Although the carbon emissions mitigation target has not been specifically included in the Long-Term Development Plan (RPJP) or National Medium-Term Development Plan (RPJMN), the government has generated numerous instruments such as policies, institutions and action documents. The issuance of sectoral policies also constitutes a form of commitment by the government to more serious monitoring of carbon emissions. The establishment of the National Climate Change Board (DNPI), the REDD+ Task Force (Satgas REDD+), the National Forestry Board (DKN) and the Presidential Task Force for the Monitoring and Control of Development (UKP4) are some of the government's efforts to follow through on its commitment to mitigate carbon emissions and, particularly, reduce deforestation and degradation. The drafting of a National Action Plan and Greenhouse Gas Areas (RAN – RAD GRK) are also seen as efforts to structure government programs and work to operationalize its commitments. Below are examples of several policies, institutions and action documents that the government has produced in its efforts to mitigate carbon emissions.

Despite the many initiatives pioneered by the government as shown in the table above, the Indonesian government still faces great challenges from a governance standpoint in meeting its carbon emission mitigation targets. Aside from the challenges in industrial and economic development, the fulfillment of carbon emission mitigation targets is also hindered by poor governance. One important aspect in land and forest governance in Indonesia is inadequate availability of policies and budgets. Inconsistency between policies, overlapping policies, policies that contradict one another and budget policies that are insufficiently responsive to the land and forest governance have been critical issues from the perspective of poor governance in policy sector.

[11] Such as Law No. 24/2009 concerning Mineral and Coal Mining, Law No. 32/2009 concerning Environment Protection and Governance and Presidential Instruction No. 10/2011 concerning Delayed Issuance of New Permits and Revision of Primary Natural Forest and Peatland Governance whose implementation period was then extended through Presidential Instruction No. 6/2013. Meanwhile, other sectoral policies have also been issued in previous years such as Law No. 41/1999 concerning Forestry, Law No. 18/2004 concerning Plantations, Law No. 26/2007 concerning Spatial Zoning.

[12] The Asia Foundation (2011), Study on the Political Economy of Land Use, Land Use Change and Forestry at the Local Level in Indonesia.

2.3 COMMITMENTS PREDICTED NOT TO BE MET

The Indonesian Government's commitment to reduce carbon emissions by 26 percent before 2020 is predicted not to be met. The commitment stated in Presidential Regulation No. 61/2011 concerning the National Action Plan for Greenhouse Gas Emission Mitigation (RAN-GRK) aims at a reduction of emissions by 26 percent as an individual effort by Indonesia or by 41 percent with international support. This policy has been downscaled as a priority program in each field, as shown in the table below:

This study has identified important challenges the Indonesian government is facing in mitigating carbon emissions, in particular, deforestation and degradation due to poor land and forest governance with respect to budgeting and planning policies. The following challenges reflect the prediction that the Indonesian government's commitment to mitigate carbon emission by 26 percent through its own efforts and 41 percent with international support by 2020 will not be met.

Table 2.2 Priority of National Action Plan for Greenhouse Gases (RAN-GRK) (Under Presidential Regulation No. 61/2011)

FIELD	PRIORITY
Agriculture	1. Promotion of slash-and-burn-free agricultural land governance
	2. Development of plantation areas in non-forested land and increased production and productivity, mainly for oil palm
Forestry	1. Acceleration of forestland consolidation
	2. Formation and reinforcement of KPH
	3. Governance of peatland for sustainable agriculture
	4. Rehabilitation, reclamation and revitalization of neglected and degraded peatlands
	5. Establishment of communally-governed forest areas and village forests
	6. Land and Forest Rehabilitation
	7. Forest fire control
	8. Forest patrol and security
	9. Increase of plantation forest businesses cultivated in unforested areas
	10. Conservation area development
Mining and Energy	1. Enforcing the regulations of post-mining area reclamation

A. THE EMISSION MITIGATION TARGET HAS NOT BEEN INTEGRATED INTO OTHER PLANNING POLICIES.

The authority of the central government to manage, govern and utilize mining and plantation forests is manifested in the main strategies in the National Medium-Term Development Plan (RPJMN), Government Work Plan (RKP), Strategic Work Plan (Ministries of Forestry, ESDM) and Work Plan of relevant ministries/agencies.

The planning policies do not explicitly contain mitigation targets for deforestation and degradation rates as important indicators of emission mitigation. Of the RPJMN and other planning documents down to the ministerial level, none include mitigation targets for deforestation and degradation or as strategic targets for mitigating the level of carbon emission. Shifts in the function of forestland and peatland, legal and illegal logging, and forest fires have all contributed to carbon emissions in Indonesia. The problem is that in the 2010-2014 RPJMN, the indicator of the rate of mitigation of deforestation is only identified as efforts to decrease the number of fire hot spots and suspension of environmental damage. Meanwhile, function shifts and logging are not taken as strategic indicators. Secondly, the indicators of target fulfillment in lowering the number of fire hot spots and mitigating the environmental damage rate do not contain any measurable variables, including the area of forest and land over which the government can prevent fires or environmental damage. RPJMN does not contain any indicators at all to examine decreases in the number of hot spots.

Performance targets set forth in planning documents vary from document to document. As a part of development planning consistency, RPJMN documents ought to serve as a reference for the Government Work Plan (RKP) document. Furthermore, the RKP is a reference for ministries to draft a Strategic Plan (Renstra) which is then followed by the drafting of a Work Plan (Renja) by each ministry based on the existing Renstra. Therefore, it is vital for the indicators of performance target achievement to have the same figures, starting from the RPJMN through to the ministerial Renja. However, in the investigation of this study it is found that some differences exist in performance indicators between planning documents. The performance achievement target for forest and land rehabilitation was decreased at the Work Plan (Renja) level at the Forestry Ministry. Based on RPJMN, RKP and the Ministerial Renstra, 2.5 million hectares of forest and land were to be rehabilitated in five years. The assumption regarding this achievement was that the Forestry Ministry could rehabilitate 500,000 hectares of forest and land per year. Yet, in the existing work plan of the Forestry Ministry, the targeted area for rehabilitation is only 100,000 hectares in 2011 and 300,000 hectares in 2012. No yearly work plan has set a figure greater than 500,000 hectares per annum as its target. Thus, it is predicted that the Forestry Ministry will not be able to fulfill this performance target. The same goes for the performance target for public access to the forest governance areas within Village Forests, Communal Forests and Community Forest Plantation schemes, determined with indicators that vary between RPJMN/RKP and Ministerial Renstra and Renja.

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[11] Such as Law No. 24/2009 concerning Mineral and Coal Mining, Law No. 32/2009 concerning Environment Protection and Governance and Presidential Instruction No. 10/2011 concerning Delayed Issuance of New Permits and Revision of Primary Natural Forest and Peatland Governance whose implementation period was then extended through Presidential Instruction No. 6/2013. Meanwhile, other sectoral policies have also been issued in previous years such as Law No. 41/1999 concerning Forestry, Law No. 18/2004 concerning Plantations, Law No. 26/2007 concerning Spatial Zoning.

[12] These policy documents have listed short-term and medium-term target indicators to be achieved as commitments to assessing the central government's performance. In addition, these indicators aim to solve issues depicted in the map of problems the government has to face in a realistic, measurable, and timely manner. It is from here that the commitment, orientation, precision, and successfulness of the government's strategies will be assessed.

Table 2.3 Appropriateness and Consistency of Achievement Targets and Performance Indicators Between Central Government Planning Documents

Aspect	RPJMN	RKP	RENSTRA	RENJA
Land and forest rehabilitation target	500,000 Ha/year or 2.5 million/5 years	Values that vary from 2010 to 2012	500,000 Ha/year or 2.5 million/5 years	variance of 100,000 Ha-400,000 Ha
People's Governance Access (HD, HKM, HTR)	1.65 million Ha by 2014	Less than 1.65 million Ha	2.5 million Ha HKM, 500,000 HD	Varies each year
Expansion of agricultural land	2 million Ha/5 years	2 million Ha/5 years	2 million Ha/5 Years	No target found each year
Mining Licensing	Expansion of working area and mining license	Expansion of working area and mining license	Expansion of working area and mining license	Expansion of working area and mining license
Former Mine Reclamation	No target area found	No target area found	Around 6,200 Ha/year (ESDM)	No target defined
Ecosystem Restoration in Former Felling	None	None	2.5 million ha	350,000-450,000 Ha/year
Increase in land productivity and garden plants	No clearly defined and measurable program	None	Nine programs within the RAN-GRK framework	No specific target found

B. THE GOVERNMENT'S PERFORMANCE ACHIEVEMENT IS LOWER THAN PLANNED.

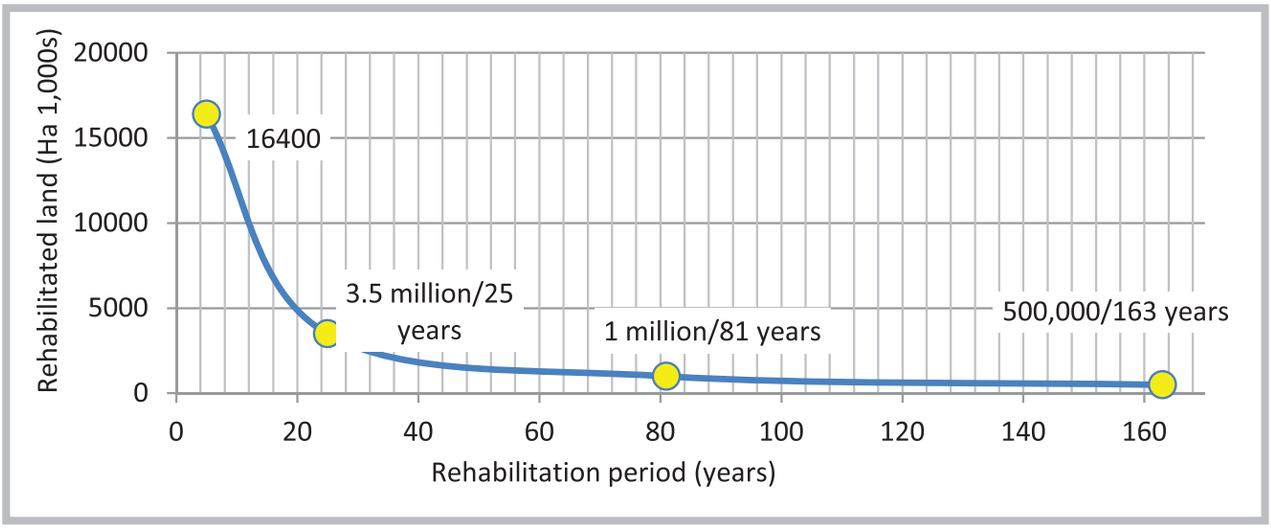
The government's performance in achieving the carbon emissions mitigation target is far from what was planned. In general, there is a gap in target-setting and indicators in terms of their both medium- and short-term results.

Rehabilitation of degraded land will take 163 years. The area of degraded land in Indonesia is 81.6 million Ha. From this total area, through its RPJMN the Indonesian government targets only 2.5 million Ha of degraded land for rehabilitation within 5 years, or only 500,000 Ha per year. Based on a 'business as usual' scenario, Susilo Bambang Yudhoyono's target will only contribute 3 percent to degraded land rehabilitation of the total existing land damage. To rehabilitate the total area of degraded land at this rate would take Yudhoyono's government 163 years. For this reason, the government should instead be targeting 16,000 Ha per year.

[13] Forestry Department: Forestry Statistics, 2012

[14] Source: Indonesia's Medium Term Development Plan Documents (RPJMN) 2010-2014

Graphic 2.2 Rehabilitation period length compared to the area of land rehabilitated



Box 2.1 Permit Moratorium Policy in Indonesia

On 20 May 2011, Presidential Instruction (Inpres) No. 10/2011 was issued with the aim of delaying the issuance of new HPH permits for the clearance and conversion of forests and peatland for two years from the date it was promulgated. This delay was to make time to improve forest governance via the institutionalization of processes of coordinating and gathering data as well as the introduction of new regulations that may be needed.

In its development, the Inpres mentioned above was extended to 2014, or until the end of President Susilo Bambang Yudhoyono's term.

The government has failed to fulfill the performance expected by the degraded land rehabilitation program. Leaving aside the optimum target and looking only at the existing performance target, the government still has not succeeded in achieving the degraded land rehabilitation target of 500,000 Ha per year. Based on the data issued by the Department of Forestry (2012), it is found that the rehabilitation program from 2007-2012 could only be performed on 1.6 million Ha of land. This means that the government has only been able to rehabilitate an average of 320,000 Ha of land per year. This figure is far from what is targeted in the RPJMN.

The moratorium does not prevent new permits from being issued for 22.5 million Ha of primary forest and peatland, and fails to protect 46.7 million Ha of secondary forest. The Indonesian government issued Presidential Instruction (Inpres) No. 6/2013 to maintain Inpres No. 10/2011 regarding the suspension of the issuance of new permits and revision of primary natural forest and peatland governance. The inclusion of protection and conservation forests, which had been legally protected, gives rise to speculation that the actual target the moratorium covers is not as broad as that contained in the Indicative Map of New License Suspension (Peta Indikatif Penundaan Izin Baru, PIPIB). The conservation area protected by Law No. 41/1999 and government regulations is 47.8 million Ha, while the moratorium coverage based on PIPIB is 66.4 million Ha. This means that the new area covered by the moratorium is only 22.5 million Ha.

The moratorium was introduced in the interest of managing the administration of permits, yet no law enforcement touches on violations that occur in the administration of permits. In terms of protecting conservation areas, what is needed most is the government's decisiveness in seriously enforcing the law. Only law enforcement can preventing private forest industries from misusing conservation areas for forestry, mining and plantation industrial purposes. The moratorium Inpres only indicates a sign of compromise between the central government, regional governments and the private sector, which is not interested in enforcing the law, but in regulating permits.

Table 2.4 Area Covered by Moratorium (million Ha) by Island; Comparison With Area of Conservation Zones and Coverage in Indicative Map of New License Suspension (PIPIB)

Island	Conservation area that has already been protected	Moratorium based on PIPIB	Area of overlap between conservation area and PIPIB	New area that is actually covered moratorium
Bali, Nusa Tenggara and Maluku	3.3	3.9	2.8	1.1
Jawa	1	1.2	0.8	0.4
Kalimantan	10.2	16.1	9.3	6.8
Papua	16.8	24	16.1	7.9
Sulawesi	6.1	7	5.6	1.4
Sumatra	10.5	14.1	9.2	4.9
Indonesia (total)	47.8	66.4	43.9	22.5

Source: Working Paper – Indonesian Forest Moratorium; A Stepping Stone for Improving Forest Governance?. CIFOR, 2011

[15] Conclusion of discussion with the Presidential Task Force team for Development Monitoring and Control (UKP4) in the Republic of Indonesia

[16] Forestry Ministry 2012, Forest development in Indonesia, in Forestry Statistics 2011.

[17] Hansen suggests that during the Moratorium period, Indonesia experienced a significant increase in deforestation. See Hansen et al (2013), High-resolution Global Maps of 21st Century Forest Cover Change, World Resource Institute (WRI).

[18] HKm is a community forest, HD is a village forest and HTR is a community forest plantation.

Within the moratorium policy period, the area of forestland in Indonesia has shrunk by 4.3 million Ha. In November 2010 the total area of remaining forest was 133 million Ha, which decreased to 131 million Ha in November 2011 and continued to decrease to just 129 million Ha in December 2012. These figures show that implementing a moratorium does not necessarily mean the forested areas will survive. Aside from the moratorium not being applicable for permits already in existence, this policy has resulted in a search for new policy strategies at the local level. The data from the team at the Center for State Administrative Law Review (Pusat Kajian Hukum Administrasi Negara), State Administrative Agency (Lembaga Administrasi Negara), suggested investigating the Moratorium's issuing of Mining Business Permits (IUP) by having their permit application backdated to before the date the moratorium took effect (Lembaga Administrasi Negara; 2013: 13). While the case under review is from the mining sector, it is predicted that such a maneuver is also applied in the forestry sector. In other words, the moratorium has not had a significant effect on the mitigation of deforestation. A study conducted by Hansen et al (2013) indicates the same findings.

The accessibility of forestry resources to the community through the HKm, HD and HTR schemes is not given enough priority by the government, and there is a tendency for discrimination. The target set forth in RPJMN shows that the area of such reservations for community access is only 2.13 percent of the total forest area and 3.59 percent of the production forest (HP) area. This policy can be understood as the government consciously discriminating against the community while treating the forest as an open space for corporate and industrial interests.

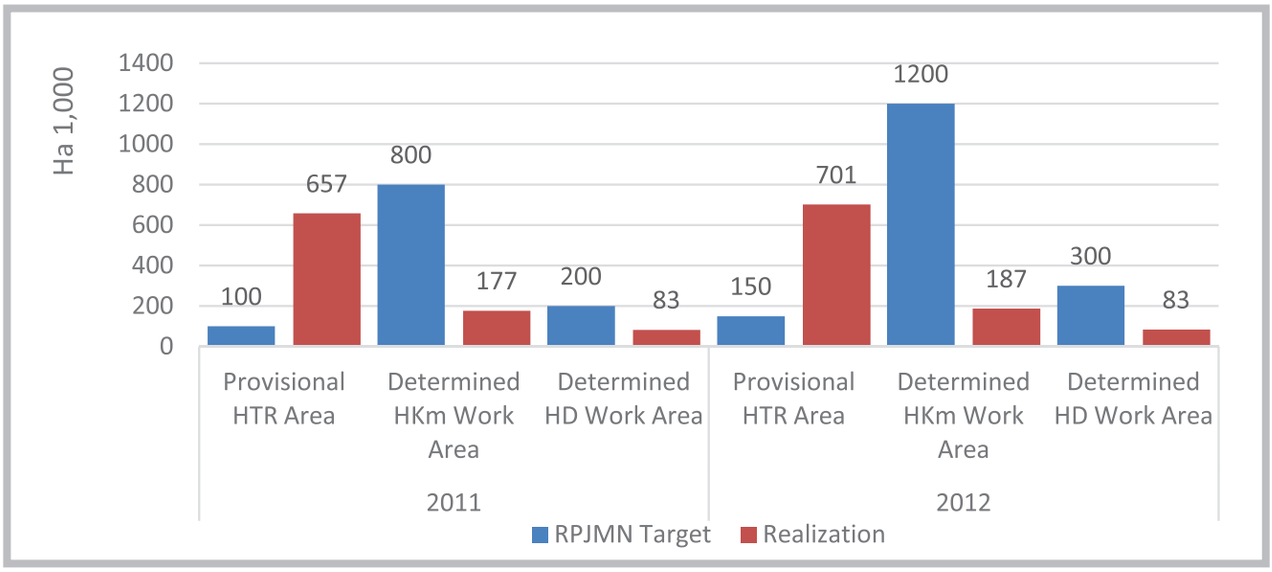
Table 2.5 Comparison of forest area, Production Forest area and HKm, HD & HTRthe area of land rehabilitated

Area of Forestland	129 million Ha
Production Forest (HP) Area	76.6 million Ha
% of Forestland	59%
Realization of HKm, HTR, HD (2012)	971,000 Ha
% of Forestland	0.75%
% of HP area	1.27%
HKm, HTR, HD (RPJM) targets	2.7 million Ha
% of Forestland	2.13%
% of HP area	3.59%

Source: 2012 Forest Statistics and RPJMN 2010-2014; processed

The HKm, HD and HTR area provisions that have actually been realized have always been lower than the RPJMN targets. In the RPJMN, the target is set for HTR area reservation, the designation of HKm and HD areas is 1.1 million Ha, yet the actual amount realized by the government was just 916,900 Ha in 2011. Meanwhile, 2012 appears to be even worse since out of a target of 1.6 million Ha, only 971,000 Ha were realized. Only 0.75 percent of the total forest area or 1.27 percent of total Production Forest area was realized as HKm, HD and HTR during the period of 2007-2011.

Graphic 2.3 - Target vs Actual of HTR, HKm and HD in the RPJMN



[19] Processed from RPJMN 2010-2014 and Forestry Statistics 2012.

Box 2.2 Proposal for Village Forest in North Kayong District Took More Than 1,000 Days

The communities in five villages of the Pulau Maya sub-district, North Kayong district can now breathe a collective sigh of relief. Their proposal for the Forestry Ministry to establish a village forest work area of 52,794.16 Ha was finally approved by the minister at the end of July 2013. Their sense of relief is understandable, keeping in mind that they struggled to get approval for approximately three years.

The proposal for a village forest (HD) by the community began when the district head sent a proposal document of five village forest work areas on October 22, 2010. Meanwhile, in the same region, a production forest area proposed by the community to be a village forest had also been proposed to be an Ecosystem Restoration (RE) program by PT Gapura Persada Khatulistiwa. However, on November 10, 2010, the district head sent a letter to the Forestry Minister to confirm that the district government refused the company's RE but supported the community's HD proposal.

In March 2011, this was verified by a team from the Forestry Ministry, UPT and Provincial Department of Forestry. After being verified on March 25, the KKU district head once again sent the forestry minister a letter to explicitly ask for the exclusion of some HP areas from IUPHHK-RE. In reality, these two official letters by the KKU district head had gotten no response at all from the ministry. Meanwhile, the minister kept publicly expressing his political commitment to HD-HKM in various forums and on a variety of occassions.

Public disappointment led accompanying NGOs, along with elements of local government that received no logical explanation regarding their HD-HKM proposal, to report the minister's maladministration to the Indonesian Ombudsman. Eventually, on July 26, 2013, Forestry Ministry staff said that the decree regarding the North Kayong HD had been signed by the minister. If counted from the beginning of the HD proposal, the process of obtaining the decree took more than 1,000 days, from October 22, 2010, when the proposal was submitted (source: www.gemawan.or.id).

Box 2.3 Public Claim in South Sumatra against the Forestry Minister

The communities of six districts in South Sumatra that united to form the South Sumatra People's Communication Forum on Forest Governance (FKMPH – SS) filed a claim against the Minister of Forestry of the Republic of Indonesia. The problem lay with the minister's neglect of their proposals for a Community Forest (HKM) and Village Forest (HD). For all HKM schemes during 2010-2012, there was a proposed area of 3,432 hectares with a distribution across Musi Rawas and Lahat districts. For the Village Forest in the same year, a total area of 41,707 Ha was proposed, distributed across Musi Banyuasin, Muara Enim and Musi Rawas districts. However, the fact of the matter is that there is still only one definitive Village Forest in South Sumatra, that is the Muara Merang Village Forest in Musi Banyuasin District, with an area of 7,250 Ha, which was granted its governance permit in 2010.

On almost all of these proposals a verification process was conducted by the Ministry of Forestry. To date, no information has been given related to the approval of permits. In accordance with Perdirjen No. 07/2010 and No. 11/2010 concerning the Procedure for the Implementation of HKM and Village Forest Working Area Establishment Permits, the forestry minister is to be given a maximum period of only 60 working days within which to issue a decree. 60 working days have elapsed, yet nothing about the permit is known. What do you have to say about that, Mr. Minister? (source: www.sumeks.co.id)

C. GROWTH POLICIES HAVE FAILED TO PRODUCE A GREEN-GROWTH DEVELOPMENT SCENARIO

Pro-poor, pro-job, pro-growth and pro-environment as pillars of development are not enough to ensure environment-based sustainable development. With the issuance of Presidential Regulation No. 5/2010 concerning the National Medium-Term Development Plan (RPJMN), the government established four pillars in support of the orientation of development policy for the 2010-2014 period. State revenue policy, which for about 24 percent of its state spending needs depends on the exploitation of natural resources, is inconsistent with the government's pro-environment pillar.

Since 2010, the commitment to corridor-based economic development through the MP3EI scheme has been expected to potentially clear forest areas as well as exploit land in seven regions in Indonesia. Despite efforts toward mitigation through a green development scenario under the previous scheme, in the existing report, it is found that only 1.6 million Ha of forestland has been able to be rehabilitated. This figure is certainly far from the existing target. As a product of long-term policy plans, MP3EI overlaps with RPJPN. This development acceleration strategy should take RPJPN and RPJMN as its main foundation in order to make it clearer which one is the parent and which one is the derivative. Additionally, MP3EI does not provide domestic industries, particularly UMKM, with enough space to participate either; instead, it promotes the admission of large investments to develop large-scale infrastructure, BUMN, BUMD and the private sectors. The incorporation of mining as one of the eight main programs has the potential to exploit natural resources through the mining of iron ore, nickel, bauxite, copper, coal, oil and gas. Moreover, the existence of oil palm and logging activities leaves a high potential for the transfer of forest function in the interests of those two large industries.

Table 2.6 Focus and main activities of each MP3EI economic corridor

Corridor	Focus of Main Activities
Sumatra	Oil Palm, Rubber, Coal, Iron-Steel, JSS
Java	Food and Beverage, Textile, Machinery, Transportation, Shipping, Primary Weapon Defense System, Telematics, Metropolitan Jadebotabek
Kalimantan	Oil Palm, Coal, Aluminum/Bauxite, Oil and Gas, Logging, Iron-Steel
Sulawesi	Food Crop Farming, Cocoa, Fishery, Nickel, Oil and Gas
Bali NT	Tourism, Husbandry, Fishery
Papua- Maluku	Food Estate, Copper, Husbandry, Fishery, Oil and Gas, Nickel

Source: Document MP3EI; Coordinator Ministry of Economic Affairs, Indonesia

[21] Derived from the 2011 Forestry Statistics issued by the Ministry of Forestry in July 2012

The pro-growth policy has increased the conversion rate of forestland for forest and land-based industries by an area of 9.4 million Ha. Forestry Ministry data for 2007-2012 has seen the area of forestland converted into plantations expand by 6.7 million Ha. In addition, during the same period, the Forestry Ministry has also issued forestland usage permits for mining exploration and exploitation, which could result in the transfer of forest functions to mining, reaching 2.7 million Ha. From such data, it can also be concluded that the pro-growth policy has transferred the function in favor of forest and land-based industries and the land consumed per year is nearly 2 million Ha.

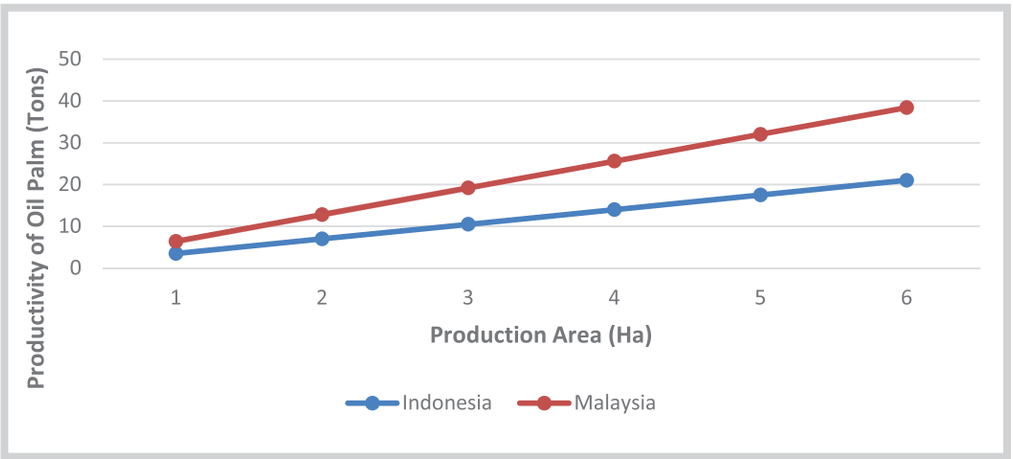
The area of oil palm plantations has displaced the area of rice fields. Based on data from the Ministry of Agriculture, oil palm land now takes up 9.8 million Ha, while land for rice fields, which support national food security, take up only 7.9 million Ha. This indicates a shift in economic development strategy in Indonesia, namely in the agricultural sector, by which the land allocated for rice fields is constantly decreasing (Agriculture Ministry, 2012).

Table 2.7 Forestland Area in Indonesia by Function

Forest Function	Area	%
Conservation Forest	21,780,624.14	16.88
Protected Forest	30,539,822.36	23.67
Limited Production Forest	27,967,604.50	21.68
Production Forest	30,810,790.34	23.88
Convertible Production Forest	17,924,534.81	13.89
Total Forest Area	**129,023,378.15**	**100.00**
Other Areas of Usage	60,613,324.15	-
Total Land Area	**189,636,703.00**	**-**

Despite the continuous growth in area of oil palm plantations, the average productivity they generate remains low. The current palm oil productivity is 3.5 tons per Ha, which is 40 percent lower than Malaysia's average productivity, at 6.4 tons per Ha (KPPU, 2007). This means that the government strategy of expanding land for oil palms does not include any effort to improve their productivity. As a result, the need for land conversion serves as a shortcut preferred by the government over having the private sector increase its business productivity.

Graphic 2.4 - Comparison of Productivity of Oil Palm in Indonesia and Malaysia



D. PRO-DEFORESTATION AND DEGRADATION PLANNING POLICIES

Industrial policies on forestry, mining and plantations aim to expand their area and permits, reflecting support for land deforestation and degradation. Based on Table 2.7 above, it is clear that planning and growth policies prioritize industrial area expansion, rather than an increase in productivity. Such an orientation and strategy is highly likely to increase the transfer of function of land and forests to industrial interests. Function transfer will eventually give birth to deforestation and degradation.

The change in allocation of forest area will result in deforestation of 11.6 million Ha of land. The main cause of such deforestation is the government's continued policy of granting usage permits for mining and non-mining exploration surveys, granting usage permits for mining production and exploitation, granting principal permits for mining and non-mining, releasing land for transmigration settlements, granting principal forest release permits for settlements, releasing production forests for conversion into agricultural land/plantations, and granting principal HPK release permits for agricultural land/plantation.

Table 2.8 Changes to Forest Area Allocation 2007 – 2012

Changes in Allocation	Area (Ha)
Principal HPK Land Release Permit for Farmland/Plantation	1,012,779.40
Release of HP for Conversion into Farmland/Plantation	5,775,400.23
Principal Forest Release Permit for Residence	606,451.75
Forest Release for Transmigration Residence	963,418.67
Principal Forestland Release Permit for Mining and Non-Mining	498,127.79
Land Use Permit for Mining Production and Exploitation Activities	359,849.77
Land Use Permit for Mining and Non-Mining Exploration Survey	2,351,926.36
TOTAL	**11,567,953.97**

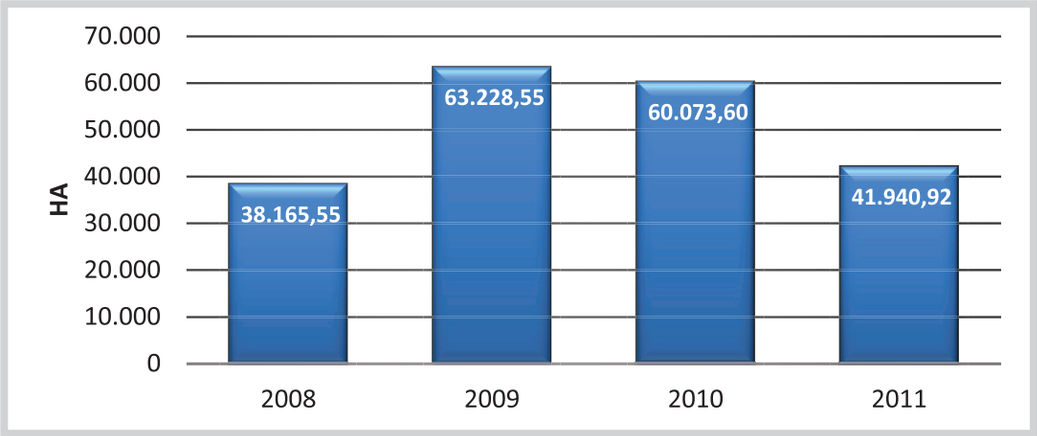
Source: Document MP3EI; Coordinator Ministry of Economic Affairs, Indonesia

[22] Processed from 2011 Forestry Statistics issued by the Ministry of Forestry in July 2012

Total forestland under use permits for mining activities has increased significantly. In 2009, there was a total of 85,014.43 Ha of forestland under use permits throughout Indonesia. Ironically, in 2011, the total area of forestland under use permits increased to 97,874.71 Ha. Use permits covering at least approximately 13,000 Ha of forestland have been issued during this three-year period. There has been a growth of 12,860.28 Ha for use permits, some of which were definitely issued during the post-moratorium period in 2011.

The principal approval of forestland use has reached a total area of 203,408.62 Ha in four years. New principal approvals were given for around 248.21 Ha in 2007. However, the total area imposed with such principal approvals continued to rise, as seen in 2008 when it reached 38,165.55 Ha, and then in 2009 reached 63,228.55 Ha, in 2010 reaching 60,073.6 Ha and in 2011 reaching 41,940.92 Ha.

Graphic 2.5 Trend of Principal Approval of Forestland Use for 2007-2011



Source: Forestry Statistics 2011 – Forestry Ministry RI

E. COMMITMENT TO CARBON EMISSION MITIGATION IS NOT FOLLOWED UP BY BUDGETARY COMMITMENTS

The government has only been able to meet up to 50 percent of its target to independently finance its carbon emission mitigation. The priority programs the government has prepared to mitigate carbon emissions require adequate financial support from the government (APBN, APBD, BUMN, BUMD), international institutions (grants, trust fund and other schemes) and the private sector for the implementation of RAN-GRK. The government has targeted financing for RAN-GRK and RAD-GRK at around Rp412 trillion through 2020. Therefore, there is a need for more than Rp40 trillion per annum to finance the implementation of RAN-GRK as described in the following table.

[23] Processed from 2011 Forestry Statistics issued by the Ministry of Forestry in July 2012

[24] Processed by the researchers based on the recapitulated data of 2011 Forestry Statistics

[25] Presentation of Deputy for Development Planning of Ministry of National Development Planning/National Development Planning Board (BAPPENAS) on October 23, 2013 in Konferensi Pembiayaan Perubahan Iklim (Conference of Climate Change Financing) in Jakarta

Table 2.9 Estimated Funding Requirements for RAN-GRK and RAD-GRK Activities 2010-2020 (Rp Trillion)

Sector	Core Activities	Supporting Activities	RAD-GRK (Rp trillion)
Transportation and Energy	94.65	6.96	79.99
Land and Forest	48.36	2.29	17.45
Agriculture	36.8	0.88	22.45
Industry	1	1.29	2.37
Waste	44.71	4.95	46.7
Other Supporting Sectors	0	2.13	0
TOTAL	225.53	18.49	167.95

Source: National Development Planning Agency (BAPPENAS) Republik Indonesia

Meanwhile, data from a study that looked at funding commitment via APBN and APBD allocation in 2011-2012 found that the allocation reached almost Rp 40 trillion over the two years. Hence, the allocation per annum is only about Rp 20 trillion. On the other hand, only 9.7 percent of the existing target is expected to be realized as of 2012, once the APBN and APBD allocations are combined. With a low financing target, it is thus predicted that the carbon emission mitigation target of 26 percent will be hard to achieve. Furthermore, in its implementation, obstacles are anticipated to result from poor coordination and other factors.

Meanwhile, the budget allocation at the regional level is far worse. Despite the provision of a reforestation funding scheme as an effort to fund reforestation, its absorption is really low. The reforestation fund utilization mechanism is deemed a source of the problem. The next thing is that the allocation in the local budget to finance environmental functions is notably small. There are hardly any programs to prevent deforestation and degradation. Allocations for monitoring the activities that are sources for the increased emissions is limited. That is why it is hard to expect the regional budget allocation to be able to help mitigate emissions on a national level.

Table 2.10 Progress of Environmental Function Expenditure (Rp million)

Level of Government	2011	2012	Total
A. National	**8,615,100**	**8,814,100**	**17,429,200**
B. Regional	**9,636,240**	**12,767,248**	**22,403,488**
District	3,932,842	5,223,747	
City	3,707,410	4,746,630	
Province	1,995,988	2,796,871	
C. Total (A+B)			**39,832,688**

Source: APBN Basic Data 2011-2012 and APBD According to Functions 2011-2012

[26] Seknas FITRA – The Asia Foundation (2013), Revealing Regional Wealth : Budget Analysis of 6 Districts and 3 Provinces di Indonesia in Forest and Land Governance

PART III

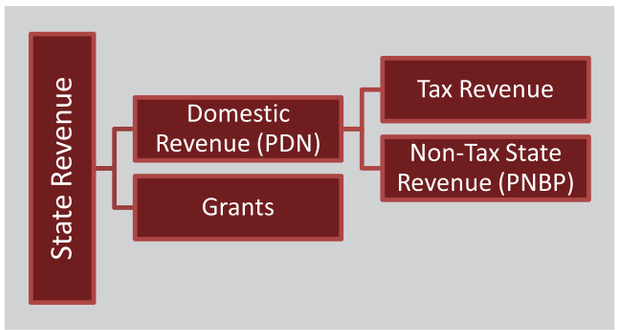
POLITICIZATION AND UNEQUAL DISTRIBUTION OF NATIONAL BUDGET POLICIES IN THE LAND AND FOREST SECTOR

3.1 CONTRIBUTION OF THE LAND AND FOREST SECTOR TO STATE REVENUE

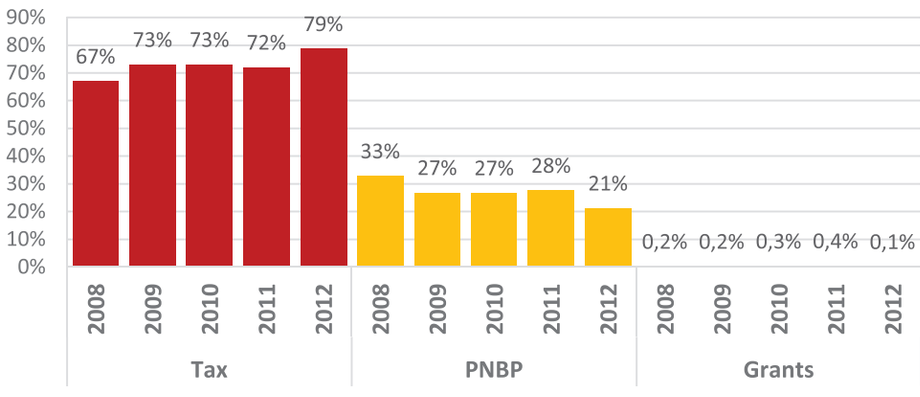
State Revenue recorded in the State Budget (APBN) is divided into two sources, namely Domestic Revenue and Grants. The Domestic Revenue (PDN) derives from Tax Revenue and Non-Tax State Revenue (PNBP). The revenue from tax is generally obtained from estate tax (PBB), income tax (PPh), value-added tax (PPN) and other kinds of tax managed by the central government. Non-Tax State Revenue (PNBP), on the other hand, is obtained from natural resources through fixed fees and royalties, BUMN's profit portion, public service agencies and other sources.

State revenue is dominated by the tax sector. The tax sector is able to contribute over 70 percent to state revenue, while the remainder is derived from non-tax state revenue, that is, at an average value of 27 percent over the past four years. Meanwhile, the contribution from grants is rather insignificant, below 0.5 percent. In 2012, the tax sector's contribution was targeted to increase to almost 80 percent, while that from PNBP was expected to decrease to nearly 20 percent.

Diagram 3.1
State Revenue Scheme by Source2012



Graphic 3.1 2008-2012 Trends in State Revenue



Source: APBN Spending 2008-2011 and Pure APBN 2012

Despite the stagnant real growth of state revenue in the land and forest sector, its nominal growth keeps increasing. State revenue growth in the land and forest sector was stagnant from 2009-2011 at 2.5 percent. However, its nominal growth increased from Rp 995 trillion in 2011 to Rp 1,210 trillion in 2011. The contributed growth of the land and forest sectors in the tax scheme is also stagnant, yet the land and forest sectors' contribution to PNBP saw a significant increase from 5.4 percent in 2008 to 8.5 percent in 2011. The average contribution to state revenue derived from land and forest activities was 2.7 percent. In this case, tax revenue from the land and forest sector was on average 0.9 percent, while PNBP from the land and forest sector was on average 7.6 percent.

The small contribution of the land and forest sector to state revenue is disproportional to the damage done. A deforestation and degradation rate of as high as 1.5 million Ha per year does not significantly contribute to state revenue, amounting to only 2.5 percent. Several studies have found that this contribution is low due to the relatively high loss of state revenue in this sector. Brown and Stolle (2009) suggest that the state suffers from a loss of US$2-3 billion per annum thanks to illegal logging. The State Audit Board (BPK) in 2010 also found that due to illegal logging, the state faced losses of Rp83 billion per day or Rp30.3 trillion per year. Article 33 also found that one cause of forest and mining resource extraction's failure to deal with deforestation and degradation issues is poor

Table 3.1 Contribution of Land and Forest Sector to Each Revenue Type

Revenue Type	Year	Value (Rp rillion)	Land and Forest (Rp Trillion)	Percent (%)
State Revenue	2008	981,609	36,137	3.7
	2009	848,763	20,005	2.4
	2010	995,271	23,640	2.4
	2011	1,210,599	29,831	2.5
Tax	2008	658,700	18,934	2.9
	2009	619,922	1,378	0.2
	2010	723,306	1,637	0.2
	2011	873,873	1,634	0.2
PNBP	2008	320,604	17,202	5.4
	2009	227,174	18,627	8.2
	2010	268,941	22,003	8.2
	2011	331,471	28,196	8.5

Source: LKPP 2009, LKPP 2010, LKPP 2011, APBN-P 2012; Processed by Seknas FITRA

[27] Data according to Forest Watch Indonesia,2012, A Portret of Indonesia's Forests. The period measured is 2000-2010.

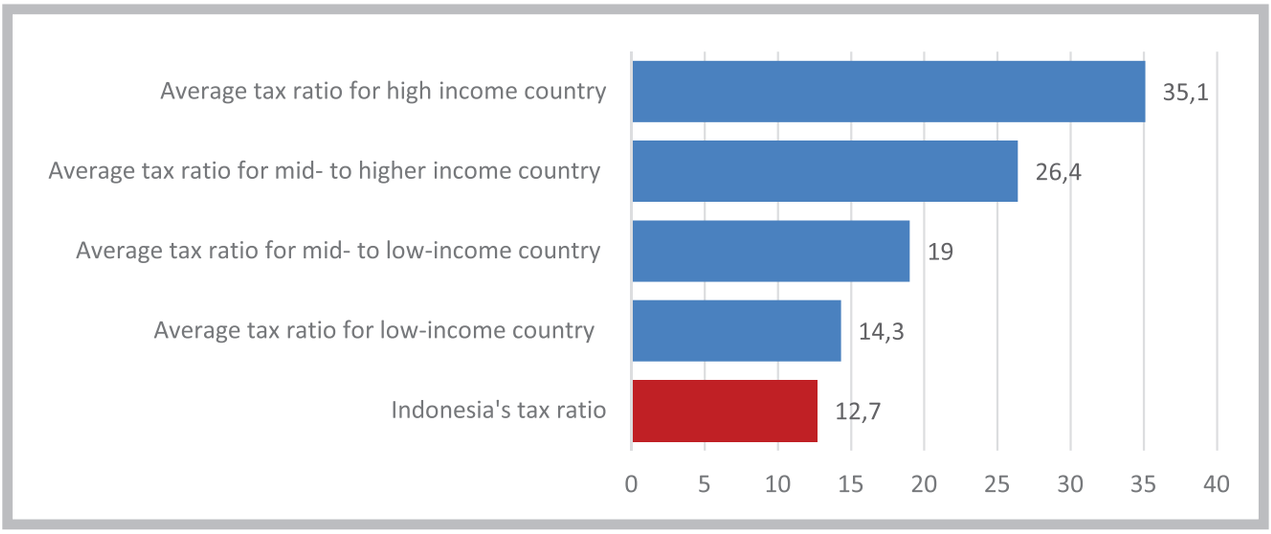
[28] World Bank (2006), Sustaining Indonesia's Forests: Strategy for the World Bank 2003-2006 in R. Wahyudi, 2013, Research Design: Diagnostic of the causes of state loss in the administrative system collection of non-tax incomes, forestry and mining (Studi Diagnostik Penyebab Kehilangan Negara dari Sistem Administrasi Koleksi PNBP Kehutanan dan Pertambangan), Article 33, Jakarta.

[29] R. Wahyudi, 2013, ibid.

public financial management, which placed greater emphasis on the administration of collecting Non-Tax State Revenue (PNBP). This can be seen from two existing conditions. Firstly, the high loss of state revenue from forest and mining sectors during the PNBP collection stage. Secondly, the weak PNBP administration system.

The increased contribution of taxes to state revenue was not matched by the tax ratio rate of GDP. On average, taxes have constituted 73 percent of state revenue in the last four years. However, this tax increase is not optimal when compared to its potential. This is reflected by the extremely slow growth of the tax ratio with respect to GDP: in 2010 it was 12 percent while in 2012 it grew to only 12.7 percent. This means that until recently, Indonesia's tax ratio was still lower than the average tax ratio of poor countries. As a country classified in the medium-low income category, the projection it generates should be at least equal to that of comparable countries such as Malaysia and Thailand, which have been capable of reaching a range of 18-20 percent.

Graphic 3.2 Comparison of Indonesia's Tax Ratio to Other Countries

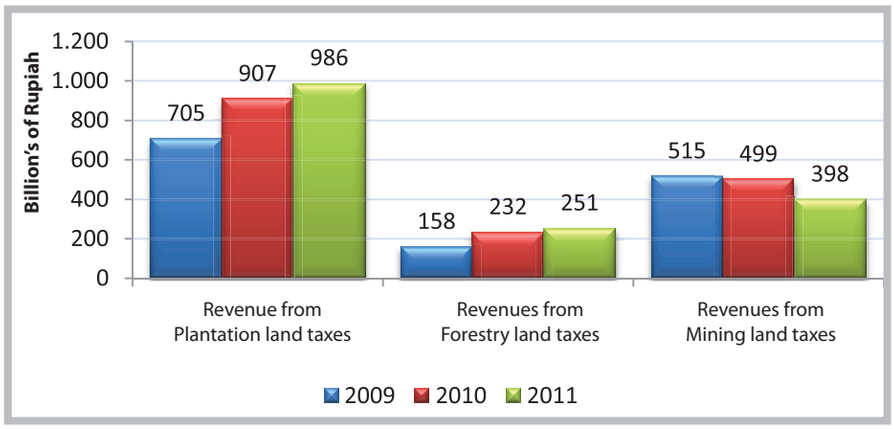


Source: RAPBN Alternative 2013; Seknas FITRA. Processed from IMF 2011 and APBN 2012

The land and forest sector's contribution to tax revenue is derived from land expansion in the plantation and forestry industries. Since 2009, the greatest sources of tax for the forest and land sectors have been estate tax (PBB) for plantations and forestry. Meanwhile, the value-added tax (VAT) for the mining sector only began to contribute additional revenue in 2010, and its value is insignificant compared to the other three types of tax. On the other hand, plantation and forestry land taxes (PBB) have seen an increase from 2009 to 2011. In contrast, mining land tax (PBB) is in constant decline. The increase in these two types of land tax (PBB) indicates that the land area of plantations for the forestry industry continues to grow, given that the tariff is calculated from the total area used.

[30] R. Wahyudi, 2013 ibid.

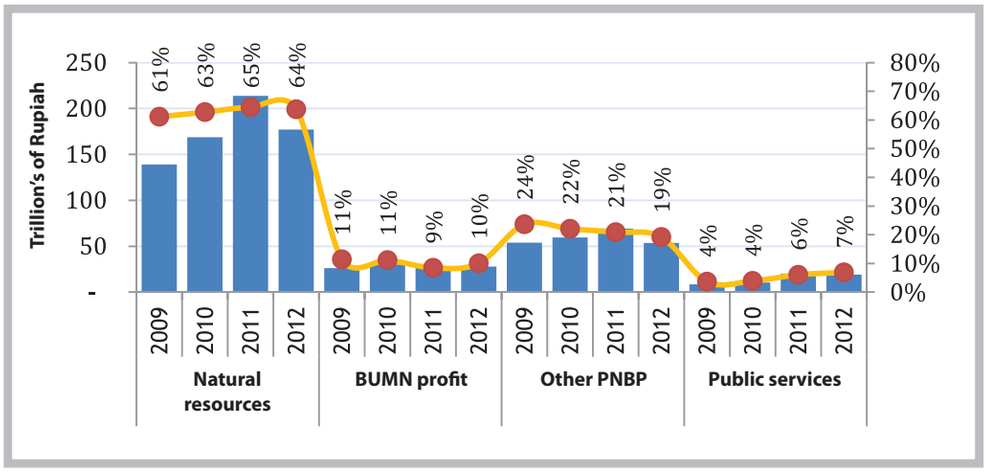
Graphic 3.3 Composition of Land and Forest Sector Taxation



Source: LKPP 2009, LKPP 2010, LKPP 2011

Up to 63 percent of PNBP is derived from the land and forest sector. PNBP coming from the land and forest sector is obtained through BUMN's profit portion, other PNBP and the Public Service Agency. The average revenue derived from BUMN's profit portion is 10 percent, while the other PNBP reaches 21 percent. These two kinds of revenue are decreasing each year. The Public Service Agency, on the other hand, can only contribute 5 percent, despite its increasing trend every year. From an analysis of the 2009-2012 period, it is found that an average of 63 percent of PNBP is obtained from land and forests. This trend in revenue from the land and forest sector is actually in decline when compared to the figures of 2008, which had a value of 70 percent.

Graphic 3.4 Composition of 2009-2012 PNBP



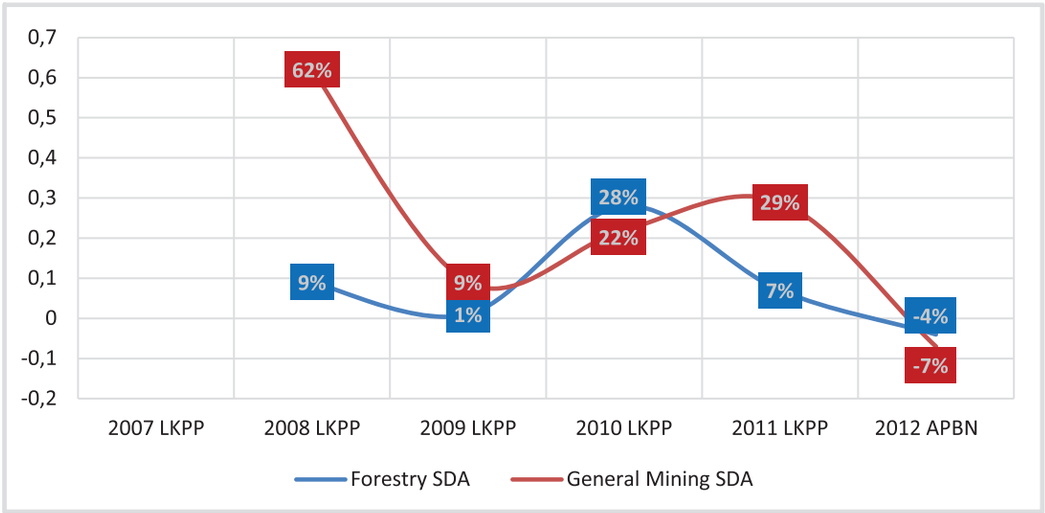
Source: LKPP 2009, LKPP 2010, LKPP 2011

The growth of PNBP from the general mining sector is more progressive than that for forestry. Despite the decline in 2012, there was a growth of revenue from the general mining sector during 2009-2011. The figure obtained for 2012 is still uncertain, because the data used was not based on the budget realization, which was reported at the end of the year. The data used only includes the amended 2012 APBN. The most significant growth was 29 percent in 2010-2011 and 22 percent in 2009-2010. In 2012, this value declined by 7 percent.

Meanwhile, PNBP growth in the forestry sector fluctuates greatly, and is not projected in a measurable and systematic way each year. Within the last four years, the highest growth was 28 percent, that is, in 2009 with the total revenue gain amounting to Rp 2.3 trillion, which increased to Rp 3 trillion in 2010. Yet the growth in 2010-2011 reached only 7 percent, which eventually decreased by a further 4 percent during 2011-2012. Such fluctuating revenue indicates that the Forestry Ministry's database is insufficient in setting its annual targets.

The decline in PNBP in these two sectors actually confirms several findings from other studies, which suggest that there has been a potential shortage of state revenue, or state losses, from the forestry sector derived from PSDH and DR, as well as in the mining sector sourced from fixed fees and royalties. The state losses are estimated to have occured as an intentional political projection of revenue, since the government has known that the actual potential is greater than the realization it has received to date for each year.

Graphic 3.5 Growth in PNBP-SDA from General Forestry and Mining

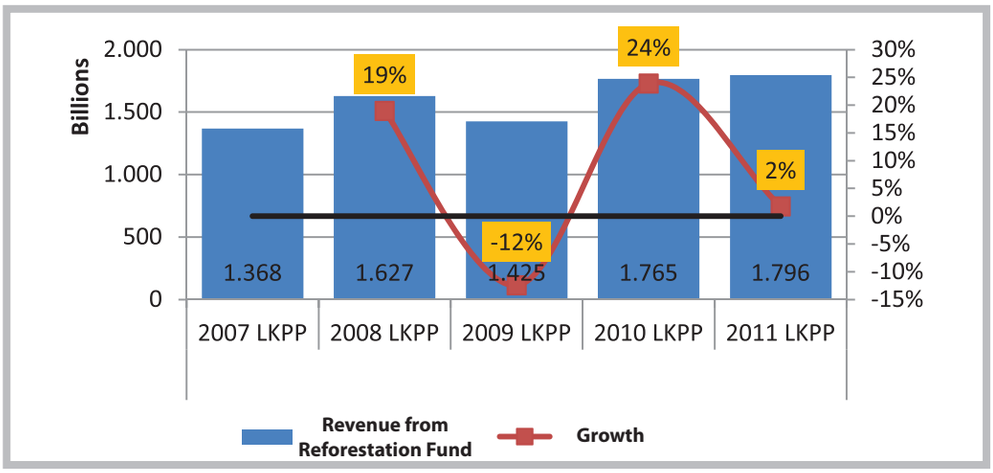


Source: LKPP 2007-2011, and APBN P 2012; Processed by Seknas FITRA

[31] Barr,C., Darmawan,A., Purnomo,H., Komaruddin, H., T 'Economic governance and reforestation funds in the Suharto and post-Suharto period' 1989-2009, 2009, Cifor, Bogor.

The greatest forestry PNBP revenue is obtained from the Reforestation Fund, amounting to an average of 62 percent during 2008-2011. In terms of this PNBP received from forestry revenue, four main sources have been identified, namely, the Reforestation Fund (62 percent), PSDH (28 percent), IIUPH (4 percent) and Forest Area Use (5 percent). While reforestation is the main source, its growth is neither measurable nor consistent from year to year.

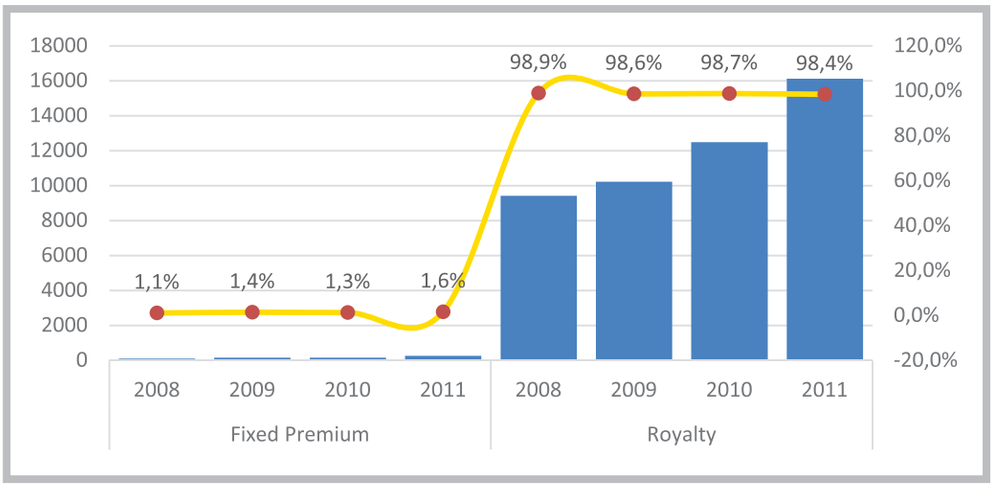
Graphic 3.6 2007-2011 Reforestation Fund Trend & Growth



Source: LKPP 2007-2011; Processed by Seknas FITRA

At the same time, the Natural Resources PNBP revenue growth from the general mining sector continues to remain at 98 percent per year. The Natural Resource PNBP Revenue of the General Mining sector is derived from fixed fees (land rent) at an average of 1.3 percent and average royalties of 98.7 percent. In the meantime, the increased revenue value of fees serves as evidence that there has been an expansion in mining areas from 2009 through 2012. The cause of the decrease comes from fees amounting to –Rp102.2 billion and from royalties of –Rp1.8 trillion.

Graphic 3.7 PNBP SDA Composition of General Mining



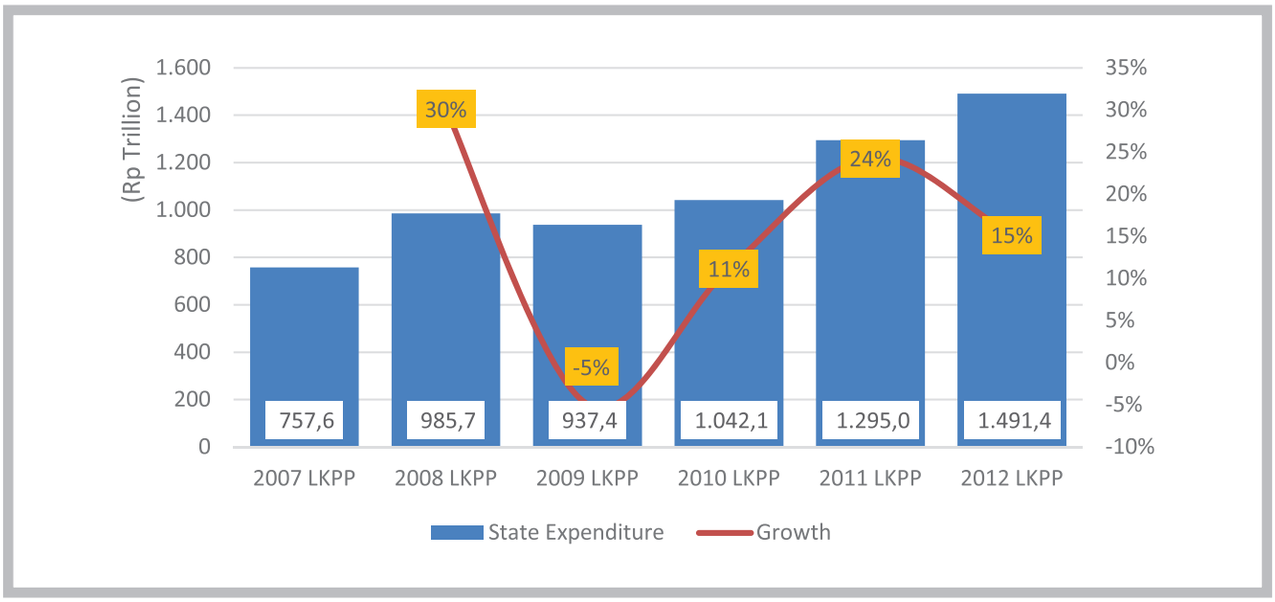
Source: LKPP 2007-2012; processed by Seknas FITRA

3.2. AN OVERVIEW OF STATE SPENDING AND LAND AND FOREST SECTOR SPENDING

State spending absorbed Rp 1,491.4 trillion of the budget in 2012. This figure was a nominal increase from the spending in the previous year, which amounted to Rp 1,295 trillion. This nominal increase was also followed by existing growth, particularly from 2009 to 2012. Such significant growth in the rate of state spending does not consider the real potential of annual state revenue which can never meet these needs. Unfortunately, the amount of state spending that is allocated to regions is only in the range of 30 percent, while the remainder is managed directly by the central government with questionable levels of targeting accuracy and efficiency.

The central government's spending in 2012 reached Rp 1,010 trillion, which is 100 percent greater than that in 2007. This is influenced by some internal and external factors. External factors influencing the growth in the rate of government spending are the development of various macro-economic indicators, such as the crude oil price (ICP), that affect the subsidy spending, and the energy subsidy in particular. Internal factors include employee salary increases as well as increases in the number of civil servants due to increases in the number of non-structural institutions.

Graphic 3.8 State Expenditure Growth, 2007-2012



Source: LKPP 2007-2012; processed by Seknas FITRA

Box 3.1 Subsidy Spending in Indonesia

Subsidies are a component of state spending that have experienced a significant increase by as much as 151 percent in the period of the last six years.

In the period 2009-2012, realized subsidy spending experienced an increase of Rp 208 trillion, or grew about 151 percent. From about Rp 138 trillion in 2009, or about 22 percent of the total state budget that year, it grew to Rp 346 trillion, or about 34 percent in the 2012 budget.

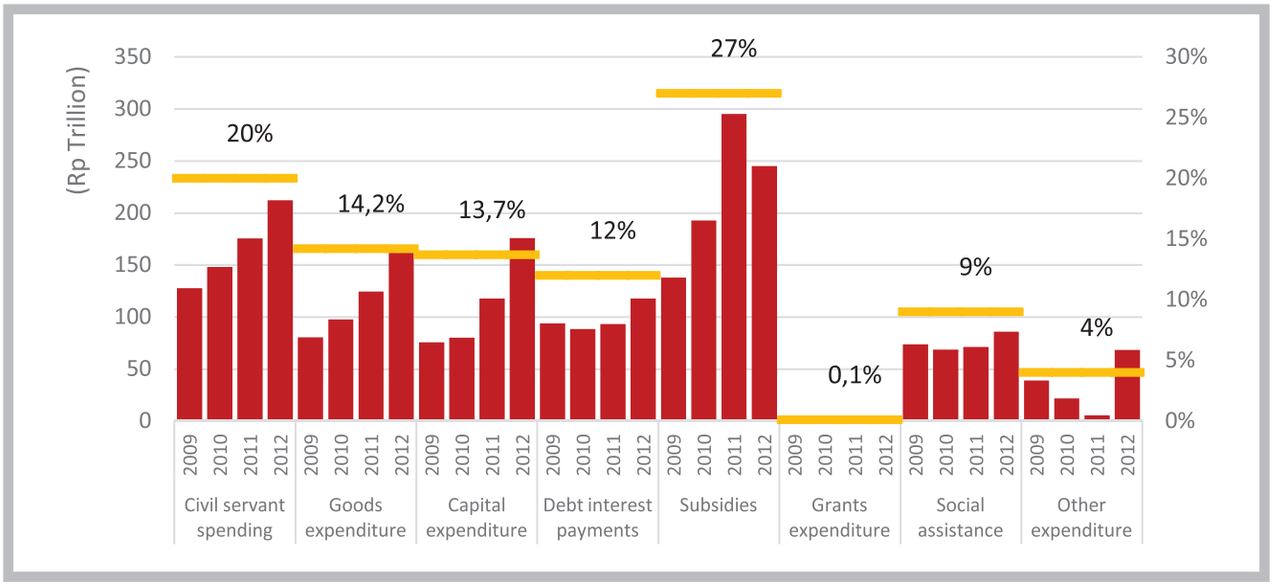
The spending subsidy is made up of energy subsidies and non-energy subsidies, with energy subsidies making up the greatest portion. Fuel subsidies experienced an increase of as much as Rp 166.8 trillion, or 370 percent, from Rp 45 trillion in 2009 to reach Rp 211.8 trillion in 2012. Meanwhile, electricity subsidies also experienced an increase of 91 percent, that is, as much as Rp 49.5 trillion in 2009 to become Rp 94.5 trillion in

2012. (Source: Seknas FITRA 2012)

Subsidies and civil servant spending absorb the greatest allocation of state spending. In the 2009-2012 period, subsidies absorbed an average of 27 percent and employee spending an average of 14.2 percent of state spending. The subsidy expenditure concerns spending on the oil and fuel (BBM) price subsidy program, which is increasing in value.

Spending to pay off interest on debt is allocated almost the same amount as that for infrastructure development. Capital spending and spending on debt interest payments are approximately the same, at around 12-14 percent. Capital spending is allocated to fund construction and repair of infrastructure such as roads, bridges, markets and so forth. With such figures, it is quite clear that spending on foreign debt payments is proportional to that on infrastructure interests. It is indeed ironic when we see the amount of spending on debt payments.

Graphic 3.9 Types of Central Government Spending



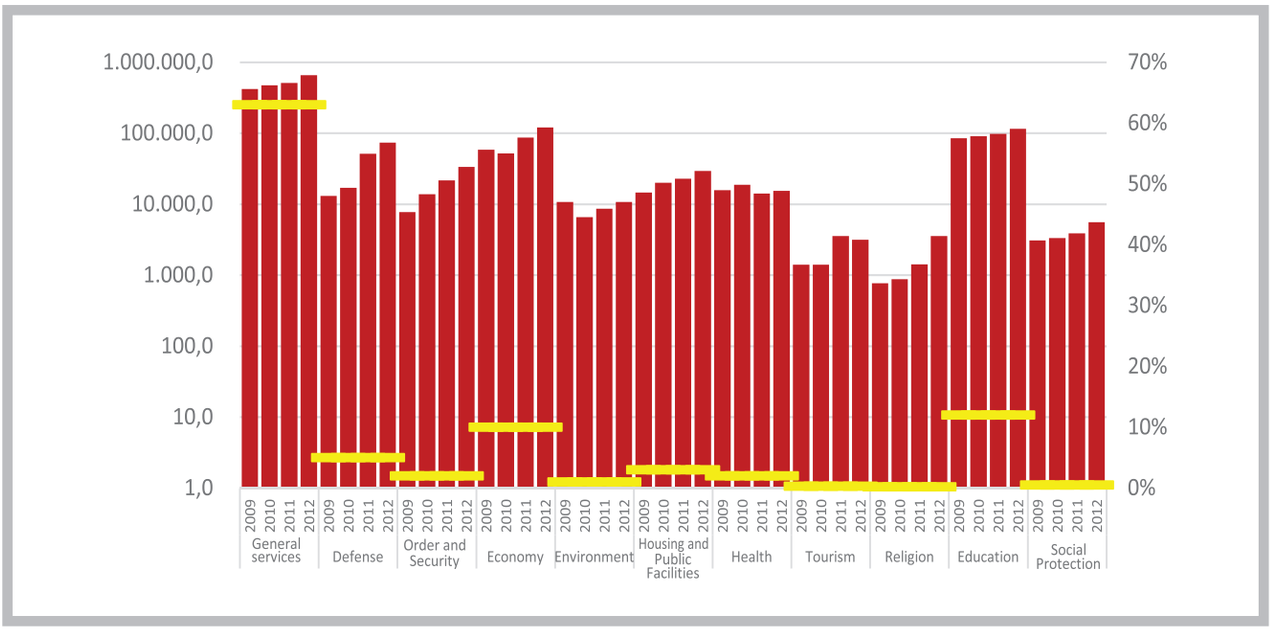
Source: LKPP 2009 - 2011 and APBN 2012; Processed by Seknas FITRA

By function, public service absorbs the greatest portion of state spending at 63 percent. Meanwhile, less than 20 percent is allocated for education. Economic spending is allocated 10 percent and healthcare only 2 percent. This approach to spending by the central government confirms that most of its spending is redirected toward bureaucratic interests. Public service spending is oriented toward the improvement of apparatus capacity, administration, finance and management support in ministries and state departments. The cost of official travel, training and purchased goods is part of this expenditure.

The average spending on environmental functions accounted for less than 1 percent of total state spending. Spending allocations on environmental functions was only 0.94 percent of the total central government spending in 2010. Meanwhile in 2011, 1.05 percent was allocated and in 2012, 1.19 percent.

Spending on social assistance increased, and its allocation was problematic. The Forestry Ministry allocated a budget of Rp 100 billion for spending on social assistance in 2012, much greater than that in 2011 at only Rp 5 billion. Taking a closer look, the increased spending on social assistance was allocated to public service functions through Directorate General of Watershed Areas (DAS). This allocation is in conflict with Finance Minister's Regulation (PMK) No. 81/PMK.05/2012 concerning the Provisions of Social Assistance Grants to Institutional Ministries. Under these provisions, it is mentioned that social assistance spending should be granted to the people in order to protect them from any possible social risk, to improve their economic capacity and welfare. The granting of social assistance spending to vertical agencies, in this case Directorate General of DAS, clearly violates the existing provisions of Social Assistance Grants to Institutional Ministries.

Graphic 3.10 Central Government Expenditure by Function (Rp Million)



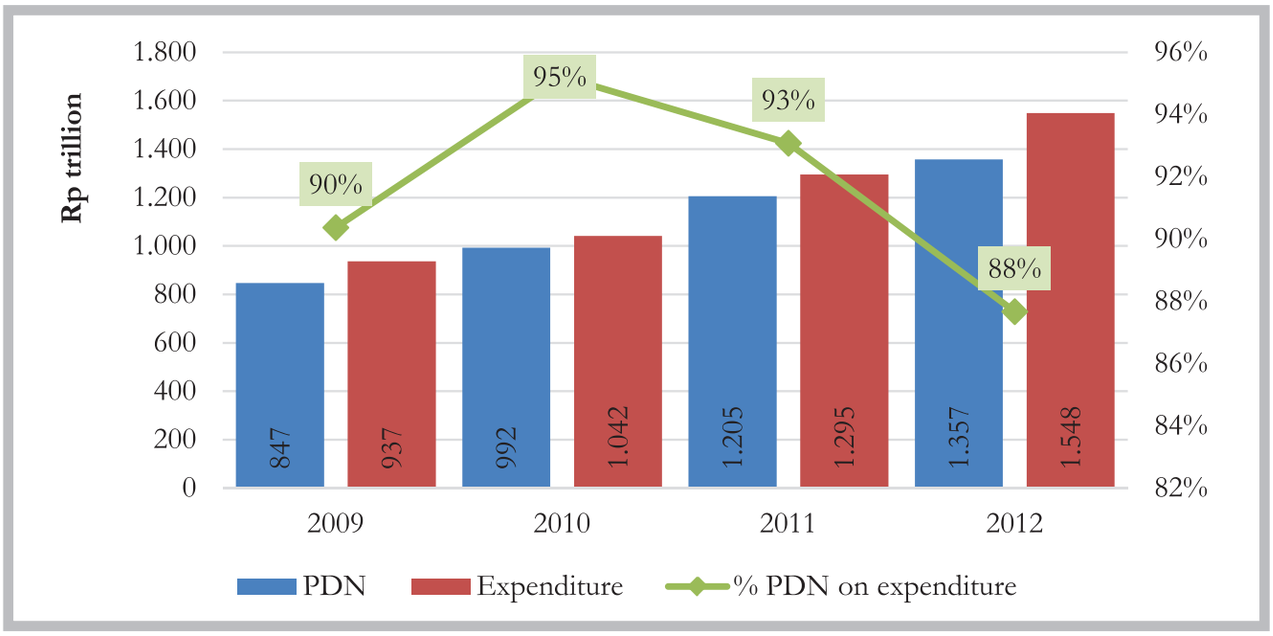
Source: LKPP 2009 - 2011 and APBN 2012; Processed by Seknas FITRA

Under these provisions, it is mentioned that social assistance spending should be granted to the people in order to protect them from any possible social risk, to improve their economic capacity and welfare. The granting of social assistance spending to vertical agencies, in this case Directorate General of DAS, clearly violates the existing provisions.

The requirements of state spending cannot be met by the tax sector alone. Therefore, an additional 27 percent of state spending requirements are supported by PNBP. Non-tax revenue is highly dependent on sources obtained from activities of natural resource utilization, with its various associated risks.

If the central government tax revenue ratio is determined to be a minimum of 14 percent to PDB as once reached in 2003, it will give an incentive for a moratorium on natural resources exploitation, particularly in mining. Thus, the fulfillment of national energy needs shall be covered by oil and gas (Migas) production, since general mining is until now oriented merely toward investment and export. The Domestic Revenue Capacity can only fund an average of 92 percent of the state spending requirements. There was an average difference of less than 8.5 percent during 2009-2012, resulting in a high deficit rate as well as a tendency to trigger the occurrence of new public debt.

Graphic 3.11 Domestic Revenue Capacity against Fulfillment of Spending Requirements

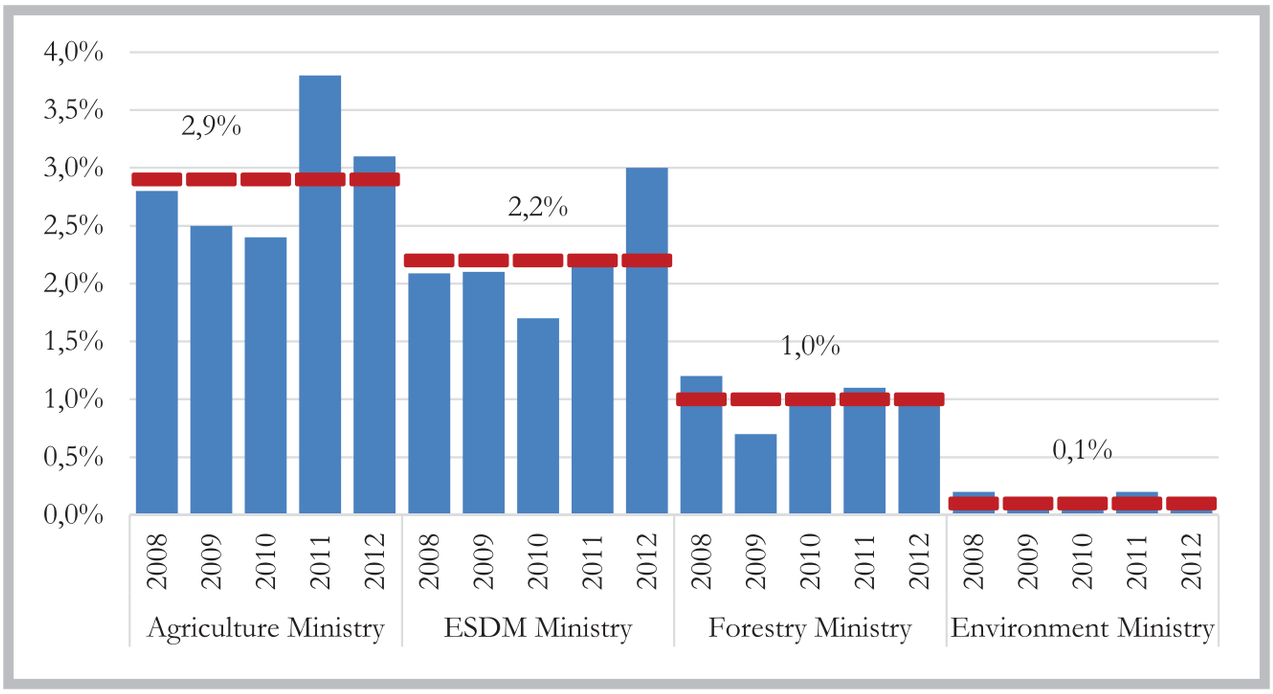


Source: LKPP 2009, LKPP 2010, LKPP 2011, APBN-P 2012; Processed by Seknas FITRA

The government lacks high political commitment to forestry sector regulation and environmental management. Based on the sectors related to land and forest governance, the Forestry Ministry and the Environment Ministry are two sectors that receive the least proportion of spending. The Forestry Ministry is the sector with greatest responsibility for designing land and forest governance strategy consistent with the objectives of both controlling the rate of deforestation and the rate of land exploitation, particularly within forestland. The small proportion of spending managed by these ministries may be attributed to incomprehensive planning scenario formulation by the Forestry Ministry, or to the general absence of political commitment by the central government to thorough control of forest damage.

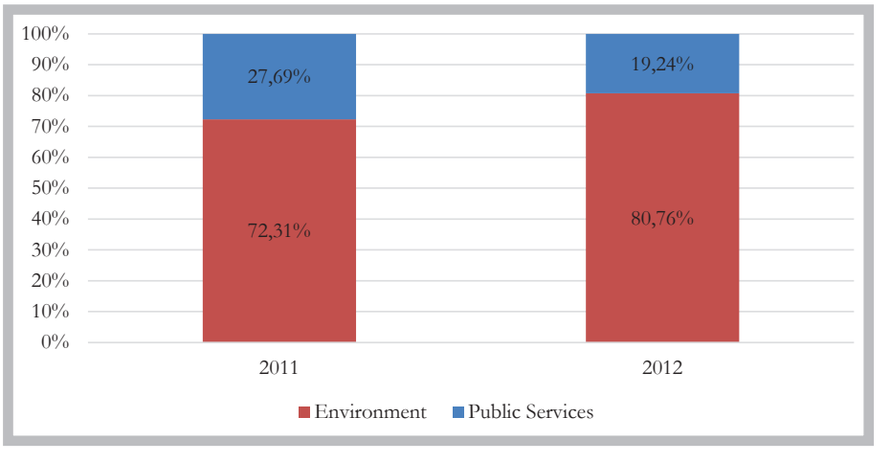
As the leading sector in efforts of ecological risk response, the Environment Ministry allocated a budget of Rp 635.8 million or 72.31 percent of its total spending to organizing activity programs relevant to environmental functions. In 2011 and 2012, this increased to Rp 715 million, or 80.76 percent of total spending. Land and forest issues have not been given serious consideration by the Environment Ministry. The natural resources Conservation Sub-Function obtained an insignificant allocation of Rp 150 million or 23.73 percent of the total Environmental Function Spending and in 2012 this decreased to Rp 112 million, or 15.65 percent of the total Environmental Function Spending.

Graphic 3.12 Ministerial Spending Trends and Averages Relevant to Land and Forest Sector



Source: LKPP 2008 - 2011 and APBN 2012; Processed by Seknas FITRA

Graphic 3.13 Environment Ministry Expenditure by Function

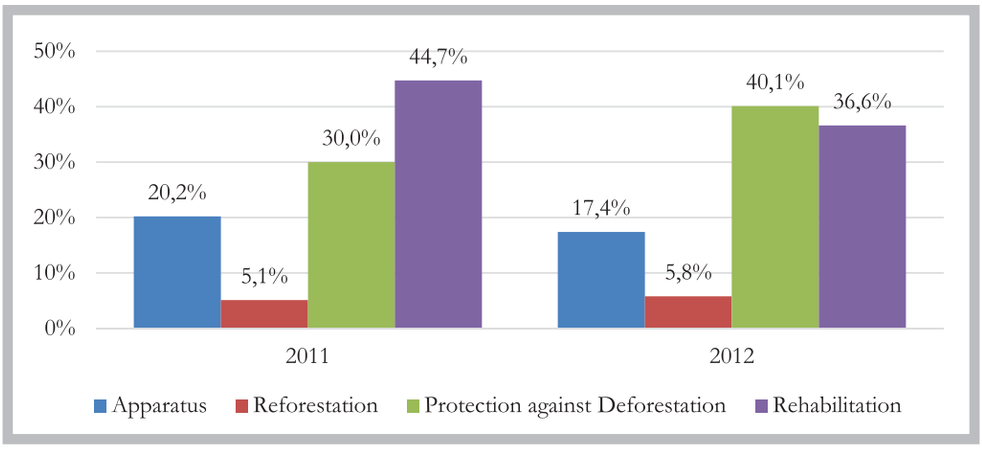


Source: Kepres APBN 2011 and 2012; processed by the researchers

Although the Forestry Ministry makes the greatest allocation for spending on deforestation prevention, its performance achievement remains low. In 2012 the Forestry Ministry allocated Rp 2.49 billion or 40.07 percent of the total environmental function spending for deforestation prevention and Rp 2.26 billion for rehabilitation efforts. In the meantime, in 2011 the largest allocation was for rehabilitation efforts, amounting to Rp 2.68 million or 44 percent of the total environmental function spending. From a budget perspective, in 2012 the Forestry Ministry wanted to give a greater focus to preventative efforts. This would have certainly been good if the rehabilitation efforts of previous years were able to deliver good results. In earlier explanations, it was suggested that the rehabilitation efforts the government has made are incomparable to the scope of existing degraded areas. This indicates that firstly, the planning commitment is not being attained and is related to inadequate budgeting policies, particularly in the land rehabilitation program, and secondly, deforestation prevention is, in large part, supported by rehabilitation activities rather than by prevention of activities that cause a high level of deforestation such as function transfers, permit issuance and expansion of plantation land.

This study has yet to find a benchmark capable of explaining the costs of environmental recovery per hectare or the cost of deforestation and degradation prevention per unit, which leads to the less in-depth analysis of land and forest sector spending.

Graphic 3.14 Details of Priority Programs in the Forestry Ministry



Source: Kepres APBN 2011 and 2012; processed by the researcher

3.3 EXPENDITURE TRANSFER TO THE REGIONS IS LESS RESPONSIVE TO LAND AND FOREST GOVERNANCE

Funding for land and forest governance, when it is correlated with the budget for the central government's transfer to regional government, can be linked via the transfer of funds earmarked for specific grants, namely: 1) The Forestry Profit-Sharing Fund (DBH) consists of the Forest Utilization License Fee (IIUPH), Forest Resource Provision (PSDH) and Reforestation Funds (DR); 2) The Special Allocation Fund (DAK) of Forestry, Environment and Agriculture.

The decrease in Forestry DBH in 2012, by as much as 9 percent, indicates a loss of state revenue. All types of spending of transfer to regions in forestry witnessed some decrease by a fairly significant amount for either IIUPH, PSDH or DR. This decrease shows that the state experiences losses in two respects, namely the decrease in forest areas due to forest business activity expansion and the loss of potential state revenue. This means that the forestry business' activity expansion does not actually provide significant incentives for state revenue. The research conducted by Article 33 indicates that the realization of PSDH from legal logging in 2009 and 2010 was on average only around 40 percent of what its potential should have been. If we assume this PSDH estimate will occur as well with the IIUPH and DR, the state can then be expected to suffer a loss of revenue by 60 percent from legal logging.

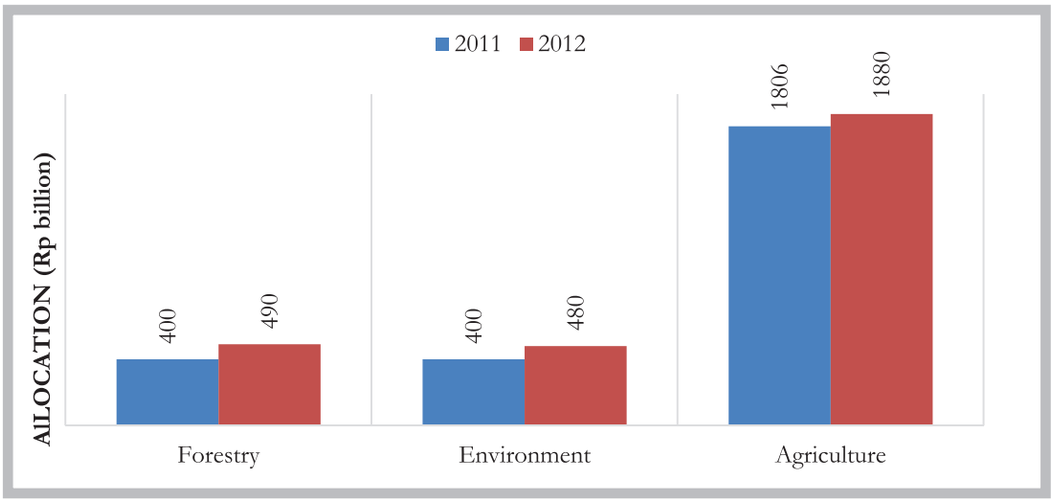
Table 3.2 Forestry Profit-Sharing Fund 2011-2012

TYPE	2011	2012
IIUPH	34,278,300,383	10,040,000,000
PSDH	714,631,766,186	633,365,229,623
DR	391,216,058,331	388,933,162,482
TOTAL	**1,140,126,124,900**	**1,032,338,392,105**

Source: Director General Fiscal Balance Financial Ministry

The DAKs for the Forestry, Agriculture and Environment sectors are a space for the central government to intervene, yet it has only been residual in nature thus far. In essence, the objectives of DAK are to assist certain regions in funding the facilities and infrastructure requirements of basic social services, and to promote the acceleration of regional development and the achievement of national priority objectives. This funding instrument through DAK is highly strategic for the government to treat these three sectors as development priorities at the regional level. However, the insignificant allocation provided by the central government as reflected in 2011 and 2012 indicates the absence of political commitment. The division of DAK into 19 fields has resulted in a loss of this allocation's specificity and it only has a shade of equity in its residual-based approach.

Graphic 3.16 2011-2012 DAKs of Forestry, Environment, Agriculture



Source: DJPK Kementerian Keuangan RI, processed by Seknas FITRA

3.4. STATE EXPENDITURE CONDITIONS: BUDGET DEFICIT POLICY AND NEW DEBT

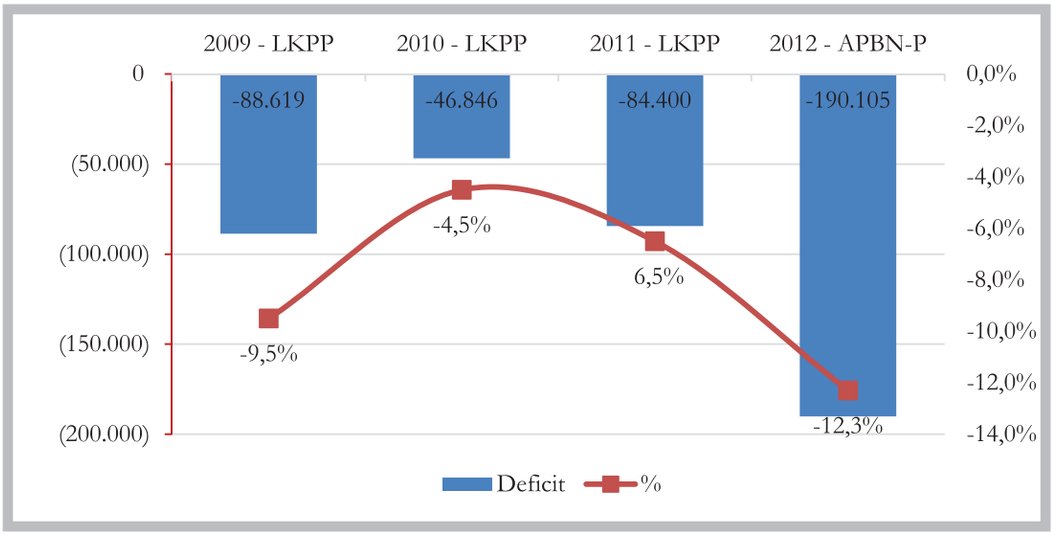
Each year's APBN experiences a deficit, which leads to new debt for the government. Increased revenue is considered a result of increased spending in general. However, this increased spending has not been directed toward responding to fundamental problems of strategic issues in poverty reduction and the rehabilitation of environmental damage due to the exploitation of natural resources, as well as social security for public health protection. Therefore, each year, the APBN is always planned to be in budgetary deficit. As a result, the government requires additional revenue to cover programs and activities. The strategies employed by the government to cover spending beyond its revenue is a debt scheme. Rather than financing the cost of public services, the government does almost nothing to reduce its bureaucratic spending (such as spending on official travel), the costs of which reach more than 60 percent.

The budget deficit level has reached an average of -8.2 percent and has increased significantly from 2010-2012. In 2012, the budget deficit of the central government was greater than -10 percent, which means that the government was experiencing a financial crisis-level deficit of at least Rp 190 trillion. The government could have actually avoided

this budget deficit policy, especially considering the great number of activities considered to be ineffective from the public's perspective. One such activity is comparative studies that appear frequently in the mass media.

Seknas FITRA's findings suggest that in the 2012 budget year, the government and DPR allocated official travel costs of up to Rp 23.9 trillion. From this fact, the budget deficit is suspected to serve as a political compromise between the executive and legislative to not intervene in one another's respective budget quotas. For the executive, this budget deficit policy presents an opportunity to propose new debts for approval.

Graphic 3.17 APBN Deficit Growth



Source: LKPP 2009, LKPP 2010, LKPP 2011, APBN-P 2012; Processed by Seknas FITRA

Government debt is used to finance policies related to the energy, infrastructure and investment sectors. The debt growth in 2012 reached Rp 221.7 trillion or a 40.5 percent increase as compared to the debt in 2011. In general, the government's policy of withdrawing new debt is used to fulfill the policy matrix in those activities aiming to achieve MDGs, climate change and infrastructure. In addition, the debt is also used for those activities in the energy and investment sectors.

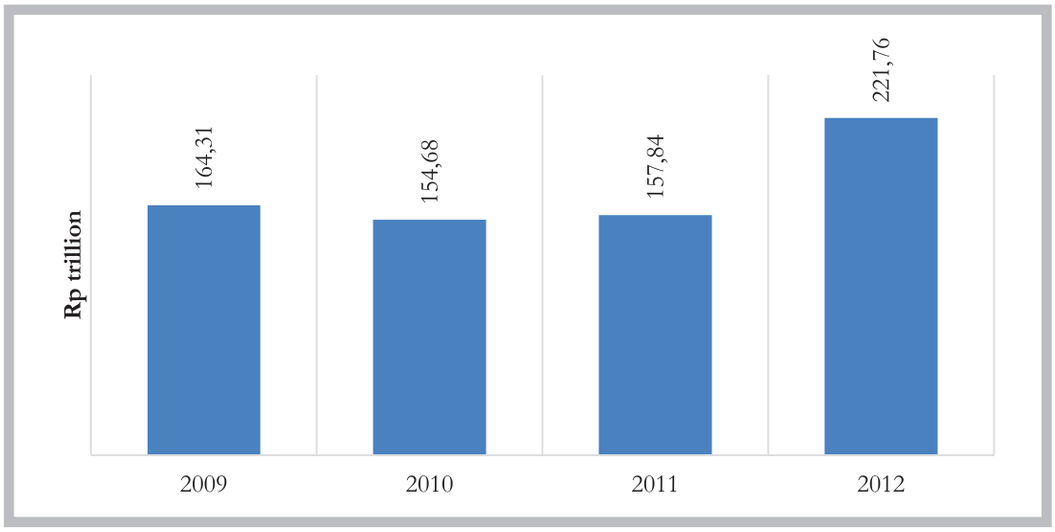
35 The central government's official travel spending for four years; Rp 15.2 trillion (2009), Rp 18.3 trillion (2010), Rp 19.6 trillion (2011) and Rp 18 trillion (2012), taken from: "RAPBN 2013 Rasa Pencitraan" published by Seknas FITRA in cooperation with Civil Society Coalition for Budget Welfare. October, 2012.

36 ibid

37 Book "RAPBN 2013 Rasa Pencitraan"; Seknas FITRA, October 2012.

38 See the discussion on the utilization of official travel spending by both the executive and legislative branches.

Graphic 3.18 2009-2013 Average Debt Growth



Source: processed from 2009-2012 APBN

The increasing amount of debt is threatens continued deforestation and land and forest degradation. One of the strategies the government can employ to suppress its debt is by exploring non-oil and gas PNBP, for example from PNBP in the forestry, mining and plantation sectors. The increasing non-oil and gas PNBP has become an important indication that this policy will surely require land expansion which can be obtained from, among other things, land function transfer. This strategy, therefore, certainly poses a threat of increasing the deforestation and degradation rates. In the meantime, other strategies such as improving the efficiency and effectiveness of state spending, is an option that most likely will be rejected by both the executive and the legislative branches.

PART IV

CONCLUSION AND RECOMMENDATIONS

4.1 CONCLUSION

The Indonesian government's commitment to reduce carbon emissions by 26 percent by 2020 has not been followed up with consistent planning policies. As a result, this commitment appears to be unattainable. Despite the many institutional, resource and planning policy packages directed at carbon emission mitigation, this initiative has had a less than optimal impact due to the lack of consistency in planning in line with commitment goals, such as the mitigation of carbon emissions. The research indicates a number of findings which depict planning policies that are inconsistent with the government's commitment to mitigate carbon emissions, such as:

Firstly, the carbon emission mitigation targets which have been translated into RAN-GRK and the RPJMN have not been integrated into other planning policies. Tackling deforestation and degradation as the greatest contributors to carbon emissions has not been explicitly set as a performance target by the government. Efforts to reduce deforestation and degradation have been interpreted as merely a matter of forest fire control. The deforestation and degradation issues resulting from function transfer, felling and corruption have not entered mainstream planning documents. On the other hand, government performance targets related to efforts to mitigate carbon emissions are formulated with different figures. RPJMN as the parent document for reference in the implementation of programs is not referred to in the implementation of programs or the setting of a performance target. There has even been an attempt to lower the performance target that was already set in the degraded land rehabilitation program.

At the same time, the planning policy does not attempt to respond earnestly to existing problems. The degraded land rehabilitation program, for example, should be the government's responsibility in dealing with degraded land of an area reaching almost 82 million Ha. The government only plans to rehabilitate 3 percent of this in five years. The same also applies to the provision of publicly organized areas through village forest and community forest schemes.

Secondly, government planning policy is actually pro-deforestation and degradation. In practice, the government continues to approve forest function transfer that will cause potential deforestation of 11.6 million Ha. Furthermore, the area of forestland under use permits has grown significantly. The principal approval of forest area use has reached more than 200,000 Ha within four years.

The moratorium policies are therefore considered less than optimal in supporting the efforts of reducing deforestation and degradation. In addition to the area of forestland under protection only covering approximately 30 percent of existing forests, the moratorium also fails to prevent the release of more forestland. During this policy period, forests shrunk by 4.3 million Ha. It is suspected that the practice of backdating in the issuance of permits has become a new strategy since the moratorium was introduced, as was proven in cases of mining. The moratorium policies have also given insufficient consideration to law enforcement efforts.

Thirdly, government performance in the effort to mitigate carbon emissions is lower than what was planned. The government

plans a target of rehabilitating 2.5 million Ha of degraded land in five years, but it has achieved only around 70 percent of that, that is, a total of 1.6 million Ha. In fact, the set performance target of 2.5 million Ha is deemed to be far below optimum capacity. With the existing performance target, the rehabilitation of degraded land would take 163 years to accomplish. This is far from expectations and from the government's commitment to mitigate carbon emissions. The same is also the case in the provision of public access to forest governance space through HD, Hkm and HTR schemes, which are still far from the existing targets and have a tendency to be discriminative. The process of proposing a reservation area for one HD took more than three years and was not transparent, and hence inconsistent with existing Forestry Ministry regulations. Meanwhile, the realization of HKm, HD and HTR area provisions has always been below the RPJMN targets.

Fourthly, the growth policies fail to generate green-growth development scenarios. The growth policies have increased forestland conversion by 9.4 million Ha. At the same time, the oil palm development policy is understood as an expansion of land area, rather than an improvement of productivity. Therefore, the current area of oil palm land has pushed aside that of agriculture. This is not just a threat to land degradation, but also a threat to state economic structure, in which the agricultural sector is deteriorating.

Fifthly, the existing planning policies are not equipped with adequate budget policies. The government's target to independently finance its efforts at emissions mitigation can only be fulfilled at approximately 50 percent. It seems difficult for the government to increase the existing budget since other mandatory spending it should fulfill remains below its commitment, such as the allocation of 20 percent of the budget for education as mandated by the Constitution. The same goes for the healthcare sector.

Meanwhile, the budget allocation at the regional level is far worse. Despite the provision of a reforestation funding scheme as an effort to fund reforestation, its absorption is very low. The reforestation fund utilization mechanism is deemed a source of the problem. The next thing is that the allocation in the local budget to finance environmental functions is notably small. There are hardly any programs to prevent deforestation and degradation. The allocation for monitoring the activities from which the increase in emission derives is limited. The great authority of the Forestry Ministry has failed to consolidate the objectives of emissions mitigation at the regional level.

Orientation of national budget policy is less than responsive to efforts at reducing deforestation and degradation. Instead, such budget policies pose a threat of increased deforestation and degradation. As a result, the government commitment to mitigate carbon emissions is merely an illusion. The continued dependence of budget policy on the land and forest sector for its revenue is not followed up with a spending allocation to adequately prevent and recover deforestation and degradation. The threat of increased deforestation and degradation will become real when state funding that depends on debts also turns the land and forest sector into a cure-all to cover the Indonesian government's debts.

In terms of revenue, the land and forest sector's contribution to state revenue is small, amounting to around 2.5 percent. This small contribution is disproportionate to the damage that has resulted. Low state revenue projections and weak public financial management has caused a potential loss of state revenue. Meanwhile, the land and forest sector's contributions to state revenue is derived from the expansion of plantations and forestry industries. The mining sector also contributes quite a large amount to PNBP.

In terms of state expenditure, the orientation of state spending policy is still directed toward bureaucratic interests and problematic policies. On the other hand, state spending on environmental recovery and on reducing the rates of deforestation and degradation as manifested in spending on environmental functions is far lower than spending on defense, public order and security functions. Environmental spending is only 1 percent of total state spending. Meanwhile, bureaucracy and public services represent 63 percent. Spending on subsidies and civil servants takes up the largest portion of state spending. Special Allocation Funds (DAK) for forestry, agriculture and the environment are residual and unsustainable in funding the spending needs of environmental recovery and reducing deforestation and degradation. Spending on social assistance by the Forestry Ministry is problematic. Furthermore, the absence of a benchmark to define the cost of environmental recovery per hectare, or the unit cost of preventing deforestation and degradation, makes further analysis difficult.

In terms of financing, the budget deficit policy that intentionally leads to new debt poses the threat of increased deforestation and degradation. The strategy of increasing exploration of non-oil and gas sources of non-tax state revenue (PNBP) to handle debt and budget deficit clearly threatens an increase in deforestation and degradation.

4.2 RECOMMENDATIONS

Based on the findings above, this study is able to provide some input to various parties related to efforts of improving policies to achieve commitments to better mitigate emissions, and particularly to help lower the rate of deforestation and degradation.

For the central government, the researchers recommend:

1. **Increasing levels of accountability for its performance to ensure that development goals** (for mitigation of emissions and lowering the rate of deforestation and degradation) are consistent with the planning of ministries and institutions. This can be done by:
    - Improving the evaluation scheme of the Government Agency Performance Accountability Reports (LAKIP), which also includes RPJMN target achievement. Usually, LAKIP only refers to strategic plan documents or work plans. This in turn causes the commitment generated through the RPJMN to be poorly captured in its evaluation scheme.
    - Disclosing development progress to the public, particularly in relation to the efforts of mitigating emissions, deforestation and degradation.
2. **Strengthening the moratorium policy to respond to existing social-political conditions.** The 2014 General Election has the potential to change the commitment and initiation schemes the government has built, especially the moratorium policies. The moratorium policies are believed to be an instrument capable of inhibiting the deforestation and degradation rate. Since the moratorium policies are only in effect until the end of President Susilo Bambang Yudhoyono's administration, it seems there are still many pending agendas. Under this state of political affairs, the researchers recommend:
    - Escalating the moratorium policy status from a Presidential Instruction to a stronger policy platform to ensure its continuation after a change in office. The Presidential Regulation scheme is an adequate alternative for the time being.
    - The moratorium policy scheme should be expanded by involving law enforcement in cases of administrative violations.
3. **Increasing the role of local government in coping with conditions of deforestation and degradation that still have not yet improved.** While the authority over land and forest governance is still great at the central level, the role of the local government needs to be strengthened in efforts to mitigate the rate of deforestation and degradation. Schemes for increasing the local government's role include:
    - Devolving authority to regional governments for implementing and optimizing performance targets, particularly with regard to accelerating the rehabilitation of degraded land and public accessibility to forest governance within HD, HKm and HTR schemes. While this method has not been tested for effectiveness in the mining and plantation sectors, in other sectors such as healthcare and education it is acknowledged to have been able to improve regional innovations in order to improve their public services and, of course, to help them achieve the Millennium Development Goals. Therefore, this issue needs to undergo more in-depth study with adequate reinforcement and support to accommodate this scheme. What exactly needs to be devolved and how this is to be done are important aspects requiring further study.
    - Devolving power to regional governments should be followed up with fiscal policies in order to reinforce its implementation.
    - Accelerating the demarcation of forestland boundaries in order to provide legal cer-

tainty and force to public activities. In addition, this acceleration of boundary demarcation can also help accelerate the process of issuing HKm, HD, and HTR permits.

4. **Improve fiscal policy in an effort to slow down rates of deforestation and degradation as a way to mitigate carbon emissions.** Fiscal policy reform can be accomplished by:

    - Improving the performance target in the tax ratio achievement of 14 percent with respect to GDP.
    - Raising the tax and PNBP tariff for land-based industries. The current tax and PNBP tariff are deemed to be too low, leading to an increased motive for exploitation and exploration activities.
    - Revising the central-local profit-sharing scheme in Law No. 33/2004 (particularly in the forestry, mining and plantation sectors) by commiting to provide an adequate allocation to mitigating deforestation and degradation.
    - Revising the profit-sharing fund management policy of the reforestation fund (DBH DR) by giving more space for regions to develop their innovation schemes and better budget absorption.
    - Lowering the state revenue target for plantation land expansion and forestry industries.

5. **Initiating the drafting of a pro-environment budget statement, especially in the Land Use, Land-Use Change and Forestry (LULUCF sector).** This statement would be part of the APBN document the government should prepare prior to approval of the APBN each year. The statement made should be based on a study conducted by parties competent in assessing environmental impact, including the synergy between APBN and relevant key policies concerning the protection of natural resources.

For civil society, the researchers recommend:

1. Conducting studies related to budget policy for better land and forest governance both at the national and regional levels as a way to increase public debate on the issue. Studies on financing benchmarks for environmental recovery and the mitigation of deforestation and degradation also need to be followed up onn. Meanwhile, studies on the loss of state revenue in the land and forest sector still need to be conducted because of the considerable amount of money being lost.
2. Civil society groups that work on issues of budget policy should support a stronger civil society movement for land and forest governance, as part of strengthening Indonesian civil society in general.
3. Advocating for civil society to be involved in the process of preparing and monitoring budgets so that the rights and aspirations of communities can be adequately considered by governments when drafting budgets, including aspirations for the conservation of natural resources and prevention of deforestation.

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